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CHINA

TAX AND CORPORATE GUIDE 2022

A GUIDE TO PRC TAX AND CORPORATE SYSTEM

China's Tax and Corporate System

Individual Income Tax

Company Income Tax

International Tax Treaties

China Tax and Corporate Guide

A Guide on PRC Tax and Corporate System

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1. China tax system

The Chinese tax system has recently developed closely to the economic growth of the country. The entry of China into the World Trade Organization (WTO) and the economic boom that has characterized past and recent years have made clear the necessity of overhauling a regulatory system in order to provide stability in the administration of the country, even in the tax field. The desire of becoming a leader in the Asian area, keeping up with the major world powers, has led China to make numerous amendments to improve and adapt the tax system to the rapid expansion of the economy and, at the same time, to attract an increasing number of foreign companies.

As a result, a significant tax system overhaul was achieved on March 16, 2007, with the enactment of the Company Income Tax Law, which then came into force on January 1, 2008. The new scheme joined together two systems of corporate income tax previously separated, the Domestic Invested Enterprises and the Foreign Invested Enterprises. The primary purpose of the reform was to standardize tax treatments for foreign and local companies, remove privileges for foreign companies and formulate new tax legislation in harmony with Western laws.

In addition, in 2016, China implemented a fully reformed VAT pilot scheme aimed to replace the previous business tax, and in 2018 a comprehensive reform of the Individual Income Tax Law was adopted, with a revision of the residence definition, the 6-year rule, and the introduction of an anti-avoidance clause.

1.1 Sources of Chinese Tax Law

Competent authorities with the power to legislate within the tax field are the following:

- National People's Congress (NPC);
- State Council (SC);
- State Administration of Taxation (SAT); and
- Ministry of Finance (MoF);

The National People's Congress (NPC), with its Standing Committee, is the supreme legislative authority in China, while the State Council, which is headed by the Premier, is the main executive organ of government.

The State Administration of Taxation and the Ministry of Finance are empowered to interpret tax laws and regulations and issue circulars, notices, and rulings about fiscal issues. The State Administration of Taxation is also responsible for the draft and the implementation of tax policies, the administration and collection of taxes, social

insurance premiums and non-tax fees, and the reporting to the Ministry of Finance for record-filing.

The State Administration of Taxation consists of a leadership committee, 18 departments and 9 agencies under its direct control (Appendix XIII: Organizational Structure of State Administration of Taxation).

2. Tax registration and collection

The Administration of Tax Collection Law of the PRC ("*Tax Collection Law*"), adopted on September 4th, 1992, and revised on April 24th, 2015, provides a definition of taxpayers and withholding agents.

Taxpayers are the entities, including companies and individuals, who are required to pay taxes in accordance with the relevant laws and regulations, and withholding agents are the entities that are obligated to withhold and remit the taxes on behalf of the taxpayers, in the cases required by laws and regulations.

2.1 Tax registration

Entities engaged in production and business activities, such as enterprises, branches, individual and commercial households and institutions, must register with the competent tax authority office within 30 days from the date of receipt of the business license. A tax registration certificate is also required to open bank accounts and other deposit accounts with banks and financial institutions.

Individuals who are engaged in taxable activities shall also be registered by submitting a tax registration form to the competent authorities when they become liable to tax.

2.2 Tax filing

Taxpayers engaged in production and business activities must submit tax filings in compliance and within the required deadlines and pay the taxes accordingly. Withholding agents shall submit tax withholding statements according to the requirements and within the time limit for the submission.

If the taxpayer or the withholding agent are unable to submit the tax filing or the tax withholding statement within the prescribed time limit, they can extend the time limit upon examination and approval by the competent tax authority.

2.3 Tax collection

Taxpayers and withholding agents are required to remit taxes according to the deadline. In case they fail to pay or remit taxes within the prescribed time limit, the tax authorities can order the payment or the remittance and impose a fine on a daily basis at the rate of 0.05% starting from the tax due date.

Taxpayers that are unable to pay taxes according to the time limit due to special circumstances, can request to postpone the payment of the tax for a period no longer than three months.

2.4 Tax filing and collection deadlines

Table 1 indicates the general deadline for the filing and payment of the main taxes applied in China.

Item	Deadline for tax filing
IIT	Individuals obtaining a taxable income shall file and pay IIT when the income is obtained. Where there is a withholding agent, the withholding agent shall withhold and prepay tax monthly or based on each income item. The tax filing deadline is the 15 th day after the end of the tax month in which the income is obtained.
	Individuals who need to submit the IIT annual settlement declaration shall perform the filing between March 1 st and June 30 th following the end of the tax year.
	Individuals who receive income from overseas shall submit the IIT annual settlement for foreign-sourced income between March 1 st and June 30 th following the end of the tax year.
	Entities deriving business income shall file and pay IIT within the 15 th day after the end of the tax month or tax quarter.
	Entities deriving business income shall file the Business Income Tax annual settlement declaration within March 31 st following the end of the tax year.
CIT	Resident enterprises subject to CIT shall file the CIT quarterly return every quarter, within 15 days after the end of each quarter, namely January 15 th , April 15 th , July 15 th , and October 15 th .
	Resident enterprises subject to CIT shall file the CIT annual settlement declaration within five months after the end of the tax year, namely May 31 st .
	Withholding agents who withhold and remit taxes on behalf of non-resident enterprises shall submit the CIT withholding filing within 7 days from the occurrence of the withholding obligation.
VAT	General taxpayers subject to VAT shall submit the VAT filing within 15 days after the end of the tax month or taxable period.
	Small scale taxpayers subject to VAT shall submit the VAT filing within 15 days after the end of the tax month or taxable period.

Table 1 Tax filing deadline for IIT, CIT, and VAT.

3. Individual income tax

The National People's Congress enacted the Individual Income Tax Law (IIT Law) for the first time on September 10, 1980, entering into force on the same day. In the following decades, there have been numerous amendments made to the original text with the last dated August 31, 2018, when the National People's Congress announced the promulgation of a revised text of Individual Income Tax Law of the People's Republic of China to be implemented from January 1, 2019.

The IIT Law¹, together with the Individual Income Tax Law Implementing Rules², is the primary legislative source regulating the application of the IIT on individuals arising income that is taxable in China.

3.1 Tax residence

The IIT Law divides taxpayers into two categories: resident taxpayers and non-resident taxpayers.

The definition of the resident taxpayer includes individuals who are domiciled in China (for family relationships, economic interests or possession of a home registered under their own name) and individuals who are not domiciled in China but have resided in China for 183 days or more during the tax year.

Individuals not domiciled in China who have spent less than 183 days during the tax year are defined as non-resident taxpayers.

The tax year begins on January 1 and ends on December 31.

3.2 Tax liability

The IIT liability of an individual depends on his / her residence status in China and the number of days spent in China during the tax year:

- Individual taxpayers who are domiciled in China are subject to IIT on their worldwide income, including income sourced in China and income sourced outside China.

¹ Individual Income Tax Law of the People's Republic of China (Revised in 2018), Order of the President of the People's Republic of China (2018) No.9

² Implementing Regulations of the Individual Income Tax Law of the People's Republic of China (Revised in 2018), Order of the State Council of the People's Republic of China (2018) No.707

- Individual taxpayers who are not domiciled in China but have resided in China for 183 days or more for more than six consecutive years, are subject to IIT on their worldwide income starting from the 7th year of tax residence.
- Individual taxpayers who are not domiciled in China but have resided in China for 183 days or more during the tax year and are tax resident in China for no more than six consecutive years, are subject to IIT on their income sourced in China and their income sourced outside China but paid by a Chinese entity. The portion of income sourced outside China and paid by an overseas entity is exempt from China IIT.
- Individual taxpayers who are not domiciled in China and have stayed in China for less than 183 days during the tax year are subject to IIT on their income sourced in China.
- Individual taxpayers who are not domiciled in China and have stayed in China for less than 90 days during the tax year are subject to IIT on their income sourced in China and paid by a Chinese entity.

For the calculation of the days, only those in which the individual stayed in China for 24 hours are included in the counting, while those in which the individuals stayed less than 24 hours are excluded.

Individuals who have dual employment and work both in China and abroad can determine their income sourced in China and the related tax liability based on the actual working period in days in China. In this case, the days in which the individuals stayed less than 24 hours in China are counted as half day.

Resident taxpayer, domiciled in China	
Income subject to China IIT	Income sourced in China and income sourced outside China
Income not subject to China IIT	None
Resident taxpayer, not domiciled in China, but has resided in China for 183 days or more cumulatively over six consecutive years	
Income subject to China IIT	Income sourced in China and income sourced outside China
Income not subject to China IIT	None
Resident taxpayer, not domiciled in China, but has resided in China for 183 days or more cumulatively for no more than six consecutively years	
Income subject to China IIT	Income sourced in China and income sourced outside China that is paid by China entity

Income not subject to China IIT	Income sourced outside China that is paid by overseas entity
Non-resident taxpayer, not domiciled in China, has resided in China for less than 183 days in a tax year	
Income subject to China IIT	Income sourced in China
Income not subject to China IIT	Income sourced outside China
Non-resident taxpayer, not domiciled in China, has resided in China for less than 90 days in a tax year	
Income subject to China IIT	Income sourced in China that is paid by China entity
Income not subject to China IIT	Income sourced in China that is paid by overseas entity and income sourced outside China

Table 2 Tax liability based on the residence status and number of days spent in China.

3.3 Worldwide taxation and six-year rule

According to the IIT Law, individuals who are considered tax residents in China shall be subject to IIT in China on their worldwide income. However, individuals who are not domiciled in China and that have not been tax residents in China for more than six consecutive years can be exempted from China IIT on their income sourced outside China that is paid by an overseas entity. Individuals who are not domiciled in China will be therefore subject to China IIT on their worldwide income starting from the seventh year of tax residence.

The six-year period shall be counted starting from January 1, 2019, and shall be counted again if the individual leaves China for more than 30 days on a single trip in any year during which he resided in China for 183 days or more.

3.4 Income classification

The different income subject to IIT can be classified according to the following categories:

- (1) Employment income, including wages, salaries, bonuses, year-end bonuses, equity rewards, subsidies, and allowances earned by the taxpayer for holding an employment;
- (2) Remuneration for personal services, derived from the provision of independent personal services, including but not limited to, legal, accounting and advisory services, translation, artistic performance, technical services, director's fees, etc....;

- (3) Author's remuneration, derived by the individual for the publication of works in books, newspapers, and periodicals;
- (4) Royalties, including income derived by the individual from granting the right to use patents, trademarks, licensing rights, and other IP rights;
- (5) Business income, consisting of the income derived by individual businesses, sole proprietorship enterprises, and individual partners engaging in production and operation activities;
- (6) Interest, dividends, and bonuses derived by the individual from interest, dividends, and bonuses received for the ownership of creditor's rights and share rights;
- (7) Income from the lease of property, including immovable property, machinery, equipment, vehicles, etc.....;
- (8) Gain derived from the transfer of property, including immovable properties, machinery, equipment, vehicles, equity and share rights, etc...
- (9) Occasional income, consisting of the income derived by the individual from prizes, lotteries, and other source with occasional nature.

The income items listed from (1) to (4) are aggregated in the comprehensive income and subject to IIT on a consolidated basis.

The incomes listed in items (5) to (9) are computed separately from the comprehensive income and taxed accordingly.

3.5 Source of the income

In the following cases, the income shall be deemed to be sourced in China, regardless of the place or the entity that makes the payment:

- Employment income and remuneration for personal services provided within China through holding an office or employment in China, the performance of a contract in China, etc.....
- Income from the lease of a property for the use within China;
- Royalties derived from the licensing for the use of IP rights within China;
- Gain from the transfer of immovable property, or any other property that is located in China; and
- Interest, dividends, and bonuses income derived from enterprises, institutions, organizations, and individuals resident in China.

Individuals earning one of the above incomes are deemed to have derived income sourced in China and therefore taxed accordingly.

Income from wages and salaries derived by an individual from holding an office or employment in another jurisdiction outside China shall be considered not taxable in China, if paid by an overseas entity.

However, where a not-domiciled individual takes office at both China and overseas entities, or only at an overseas entity, and works in China and abroad simultaneously in a period, the amount of income from Chinese and overseas employment income shall be determined by the ratio of the number of working days in China and abroad relating to the Chinese and overseas employment income. That means that employment income earned by the Individual for his position outside China and paid by an overseas entity can be deemed to be sourced in China based on the number of working days spent in China.

The number of working days in China is computed as follows:

- actual working days in China, as well as relevant public holidays, personal leave days and days the individual is participating in training; and
- if the individual stays less than 24 hours in a day, that day will be counted as half day to compute China working days.

The number of overseas working days shall be calculated as the number of calendar days in a period less the number of working days in China.

The remuneration (including salaries, bonuses, and equity incentive income) received by a non-domiciled individual from holding a senior executive position in a China company is considered China – sourced income, regardless of the place where the activities are performed by the individual. Senior executives include general managers, deputy general managers, directors, and individuals with similar arrangements.

3.6 IIT rates

The applicable IIT rates are summarized in **Table 3**. The comprehensive and business income are subject to progressive rates ranging from 3% to 45% and 5% - 35%, respectively, while the rate for other categories of income is fixed at 20%.

Taxable income	IIT rates
Comprehensive income	3% - 45%
Business income	5% - 35%
Interest, dividends, and bonuses	20% flat rate
Lease of property	20% flat rate
Capital gain	20% flat rate

Occasional income	20% flat rate
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Table 3 Applicable IIT rates.

3.7 IIT calculation

Comprehensive income for resident taxpayers

The comprehensive income obtained by the individual resident taxpayer is subject to progressive IIT rates ranging from 3% to 45% on a yearly basis.

From	To	Tax rate	Quick deduction
Not exceeding 36,000		3%	0
36,000	144,000	10%	2,520
144,000	300,000	20%	16,920
300,000	420,000	25%	31,920
420,000	660,000	30%	52,920
660,000	960,000	35%	85,920
Exceeding 960,000		45%	181,920

Table 4 IIT rates applicable to comprehensive income (yearly basis) and withholding tax rates for employment income received by a resident taxpayer.

During the tax year however, the comprehensive income received by the individual is subject to IIT withholding by the withholding agent. The withholding mechanism varies according to the type of income.

For employment income received by an individual resident taxpayer, the employer shall act as the withholding agent responsible for withholding the IIT when paying the income. The withholding shall be performed monthly when the employment income is paid to the individual. The IIT Law introduced a cumulative withholding system, according to which the resident taxpayers earning an employment income are subject to withholding IIT based on the cumulative withholding period, that computes the amount of IIT to be withheld according to the cumulative tax payable and by using the progressive tax rates in **Table 4**, which are the same applicable to comprehensive income. The employment income subject to IIT withholding is the gross income less the standard deduction, the additional deductions, the special additional deductions, and other allowed deductions.

In case of remuneration for personal services, royalties and author's remuneration, the entity paying the income is the withholding agent responsible for withholding the IIT at the time of each payment. The withholding of the above three categories of income is performed separately: in the specific

- personal service remuneration received by an individual taxpayer is subject to withholding according to the tax rates in **Table 5**, after deducting 20% of the gross amount (or CNY 800, if higher);
- royalties received by an individual taxpayer are subject to 20% flat withholding tax rate, after deducting 20% of the gross amount (or CNY 800, if higher); and
- author's remuneration obtained by an individual taxpayer is subject to a 20% flat withholding tax rate on 70% of the amount resulting after the deduction of 20% of the gross amount (or CNY 800, if higher).

From	To	Tax rate	Quick deduction
Not exceeding CNY 20,000		20%	CNY 0
CNY 20,000	CNY 50,000	30%	CNY 2,000
Exceeding CNY 50,000		40%	CNY 7,000

Table 5 Withholding tax rates for personal services remuneration received by a resident taxpayer.

At the end of the tax year, the employment income, the personal service remuneration, the royalties and author's remuneration received by the resident taxpayer shall be aggregated into the comprehensive income; the taxpayer shall compute the IIT payable according to the progressive IIT rates indicated in **Table 4** by using the following formula:

$$\begin{aligned}
 \text{IIT payable} = & (\text{yearly employment income} \\
 & + \text{yearly remuneration from personal services} \\
 & + \text{yearly author's remuneration} + \text{yearly income from royalties} \\
 & - \text{standard deduction} - \text{additional deductions} \\
 & - \text{special additional deductions} \\
 & - \text{other allowed deductions}) \times \text{tax rate} - \text{quick deduction}
 \end{aligned}$$

Where:

- Yearly employment income is the sum of the taxable gross salaries and wages income in each month during the calendar year;

- Yearly remuneration from personal services, yearly author’s remuneration and yearly income from royalties are the sum of the income in each transaction in the calendar year under relevant income categories, respectively;
- Standard deduction is the fixed amount of CNY 60,000 that can be considered as no-tax area for individual taxpayers;
- Additional deductions refer to the social insurance and housing fund contributions made by the individual during the employment;
- Special additional deductions refer to certain expenses that the taxpayers can deduct; and
- Other deductions refer to the fixed deductions granted to taxpayers for personal services (20% of the gross remuneration), royalties (20% of the gross income), and author’s remuneration (20% of the gross remuneration plus an additional 30% on the amount resulting after the first deduction). In addition, expenses incurred for purchasing specific commercial health insurances and annuities can also be deducted.

The IIT annual settlement shall be handled by the resident taxpayers between March 1 and June 30 following the tax year if the withholding tax on their comprehensive income has not been correctly applied at source, if they have earned overseas income, if they have to apply for a refund or if they earned taxable income in two or more working places.

Comprehensive income for non-resident taxpayers

For non-resident taxpayers receiving employment income, the IIT shall be computed and paid based on their monthly income and through the withholding agent, according to the withholding IIT rates in **Table 6**, that are applicable on the taxable income after deducting CNY 5,000/month as standard deduction.

From	To	Tax rate	Quick deduction
Not exceeding CNY 3,000		3%	CNY 0
CNY 3,000	CNY 12,000	10%	CNY 210
CNY 12,000	CNY 25,000	20%	CNY 1,410
CNY 25,000	CNY 35,000	25%	CNY 2,660
CNY 35,000	CNY 55,000	30%	CNY 4,410
CNY 55,000	CNY 80,000	35%	CNY 7,160
Exceeding CNY 80,000		45%	CNY 15,160

Table 6 Withholding IIT rates applicable to employment income obtained by non-resident taxpayers.

Non-resident taxpayers receiving remuneration for personal services, royalties and author's remuneration are entitled to benefit of the same deductions granted to resident taxpayers when computing the withholding IIT amount on a transaction basis.

Non-resident taxpayers are not required to submit the IIT annual settlement declaration.

Year-end annual bonus

The year-end annual bonus paid to Chinese and foreign employees can be taxed separately from the salary and wages by applying a preferential tax regime that can be enjoyed once a year. The IIT levied on the year-end bonus is calculated according to the following steps:

1. The gross amount of the annual bonus is divided by 12 to determine the applicable marginal tax rate and the quick deduction by referring to the **Table 7**;
2. The tax payable is calculated as

$$\text{Tax payable} = \text{Gross bonus} \times \text{applicable tax rate} - \text{quick deduction}$$

From	To	Tax rate	Quick deduction
Not exceeding CNY 3,000		3%	CNY 0
CNY 3,000	CNY 12,000	10%	CNY 210
CNY 12,000	CNY 25,000	20%	CNY 1,410
CNY 25,000	CNY 35,000	25%	CNY 2,660
CNY 35,000	CNY 55,000	30%	CNY 4,410
CNY 55,000	CNY 80,000	35%	CNY 7,160
Exceeding CNY 80,000		45%	CNY 15,160

Table 7 IIT rates applicable to year-end annual bonus.

The preferential tax treatment for the year-end annual bonus will be allowed for the bonus paid up to the end of 2023. From January 2024, the annual bonus paid to employees will be added up to their annual comprehensive income and taxed accordingly.

A special tax treatment of the bonus is also allowed for non-resident taxpayers earning a bonus related to multiple months. In this case, the tax payable is computed using the following formula:

$$\text{Tax payable} = (\text{Gross bonus} / 6 \times \text{applicable tax rate} - \text{quick deduction}) \times 6$$

Business income

For individuals obtaining business operation income, progressive rates provided in **Table 8** are applied to the taxable income calculated after deducting costs, expenses (including SG&A and financial expenses), and losses:

From	To	Tax rate	Quick deduction
Not exceeding CNY 30,000		5%	CNY 0
CNY 30,000	CNY 90,000	10%	CNY 1,500
CNY 90,000	CNY 300,000	20%	CNY 10,500
CNY 300,000	CNY 500,000	30%	CNY 40,500
Exceeding CNY 500,000		35%	CNY 65,500

Table 8 IIT rates applicable to business income (yearly basis).

The IIT on business income shall be filed and paid on a monthly or quarterly basis, and those deriving business income shall file the Business Income Tax annual settlement declaration within March 31st following the end of the tax year.

Interest, dividends, bonuses and occasional income

Income from interest, dividends, bonuses and the occasional income received by the individual are taxed at a flat rate of 20%, with no deductions allowed.

For dividends received by the taxpayer from enterprises listed in Chinese stock exchanges, there is a partial IIT exemption according to the holding period of the shares: if the holding period of the shares is higher than one year, the dividend income is temporarily exempted from IIT.

A temporary IIT exemption applies also to dividends received by foreign individuals from foreign invested enterprises.

Income from property leasing

Income related to leasing of property is subject to a flat tax rate of 20%. The taxable amount for income included in this category is determined by deducting 20% for expenses from the gross amount. The deduction is CNY 800 in case the income is not more than CNY 4,000. In addition, the taxpayer can also deduct reasonable expenses related to taxes and levies incurred during the leasing period, as well as repair costs.

Gain from the transfer of property

The gain arising from the transfer of property held by an individual is subject to a flat tax rate of 20% applied on the total proceeds received from the transfer transaction, less the original value (or initial investment, in case of equity), and any reasonable expense that the taxpayer may incur during the transaction.

An IIT exemption is applicable to the gain derived from the transfer of immovable property owned and lived by the individual for more than five years, and gains derived from the transfer of shares of listed enterprises owned by individuals.

3.8 Deductions for IIT purposes

Taxpayers can deduct costs, expenses, and contributions when computing the taxable income subject to IIT. These deductions include the standard deduction, the additional deductions, the special additional deductions, and other deductions allowed by the relevant laws and regulations.

Standard deduction

Each taxpayer is allowed to deduct a standard deduction of CNY 60,000 yearly.

Non-resident taxpayers earning employment income can benefit of a standard deduction of CNY 5,000 monthly.

Additional deductions

The additional deductions refer to the social insurance and housing contributions that each individual taxpayer in an employment relationship is required to make on a monthly basis. The contributions for social insurance, including pension, medical, unemployment, maternity, and work-injury, along with the housing fund contributions can be deducted from the gross amount of employment income.

Non-Chinese employees are also required to participate in social insurance schemes, according to local implementation rules that can vary from city to city.

Both employee and employer are required to contribute to social insurance and housing fund schemes and the amount of these contributions is calculated based on the employee's average salary calculated in the previous year and the rates determined by local Authorities.

The contribution rates currently applied in Shanghai and Beijing are shown in **Table 9**.

Item	Shanghai		Beijing	
	Employer	Employee	Employer	Employee
Pension	16.00%	8.00%	16.00%	8.00%
Medical	9.50%	2.00%	10.00%	2.00%
Work-related injury	0.26%	n/a	0.40%	n/a
Maternity	1.00%	n/a	0.80%	n/a
Unemployment	0.50%	0.50%	0.80%	0.20%
Housing fund	7.00%	7.00%	12.00%	12.00%

Table 9 Social insurance and housing fund contributions in Shanghai and Beijing.

Special additional deductions

The IIT Law provides the individual taxpayers with special additional deductions for expenses related to children’s education, continuing education, treatment of serious disease, elderly-care, infants and children’s under 3 years care expenses, house loan interest and rental fees. The amount and the qualifying conditions for the special additional deductions are shown in **Table 10**: the individual taxpayer can enjoy these deductions during the monthly IIT withholding, or at the time of the IIT annual settlement declaration.

Type of expense	Qualifying conditions	Annual deduction
Children’s education	From pre-school to doctoral education	CNY 12,000 per child
Continuing education	Academic or professional education	CNY 3,600/CNY 4,800
Medical fee for serious disease	Self-paid medical expenses over 15,000 CNY	Actual expense capped to CNY 80,000
House loan interest	Mortgage on first house	CNY 12,000
Housing rental fee	Not owning a property in the city of work	CNY 9,600/CNY 13,200/CNY 18,000
Elderly dependent care expenses	Parents and grandparents aged 60 years or elder	CNY 12,000/CNY 24,000
Children under 3 years care expenses	Infants and children under 3 years old	CNY 12,000 per child

Table 10 Special additional deductions.

Tax-free allowances for foreigners

Foreign employees can be exempted from IIT on certain benefits received during their employment in the territory of China. According to the Circular no. 54 (1997) of the State Administration of Taxation on “Imposing and Exempting Individual Income Tax on Qualifying Subsidies Granted to Foreign Individuals”, such deductible allowances include:

- housing, meal and laundry allowances received in a non-cash for or on a reimbursement basis;
- reimbursement of reasonable relocation expenses upon commencement or cessation of China assignment;
- travel expenses for a couple of return flight tickets to home country;
- language training and children education expenses.

All the expenses shall be supported by relevant documentation.

Foreign employees will be allowed to enjoy such allowances until the end of 2023.

Other deductions

Individual taxpayers receiving remuneration for personal services and royalties are entitled to deduct 20% of the gross amount of the remuneration or royalties when computing the taxable income, while taxpayers obtaining author’s remuneration can deduct an additional 30% after the first 20% deduction.

Taxpayers obtaining business income can deduct reasonable expenses, costs, and losses incurred when carrying out the production and operation activities.

For income from the leasing of property, an amount of CNY 800 (or 20% if the income exceeds CNY 4,000) can be deducted when calculating the taxable income.

For gain derived from the transfer of property, the initial value of the property and reasonable expenses incurred during the transfer transactions can be deducted from the total proceeds received by the taxpayer for the property.

3.9 Foreign sourced income

Individuals who are domiciled in China and individuals who are not domiciled in China but resided in China for 183 days or more for more than six consecutive years, are subject to IIT on their worldwide income, including the foreign-sourced income.

The income derived overseas by taxpayers resident in China could be taxed at source, which could lead to double taxation of the same income both in China and the overseas source jurisdiction.

The income subject to IIT can be considered derived overseas in the following circumstances:

- For employment income and personal service remuneration, the income is sourced overseas if the employment and service activities are carried at the overseas location;
- For author's remuneration, the income is deemed to be sourced overseas if the income is paid or borne by an enterprise or organization outside China;
- For royalties, the income is sourced overseas if it derives from the grant of use rights outside China;
- For business income, the income is considered sourced overseas if the production and operation activities are carried outside China;
- For interest, dividends, and bonuses, they are deemed to be sourced overseas if they are obtained from enterprises organizations or non-resident individuals outside China;
- For the lease of property, the income is deemed to be sourced overseas if the property is located overseas or used outside China;
- For gains from transfer of property, the income is deemed to be sourced overseas if it arises from the transfer of assets of overseas entities and organizations, or from the transfer of other assets outside China;
- For incidental income, the income is sourced overseas if it is obtained from enterprises, organizations, or non-resident individuals outside China.

Domiciled and resident taxpayers required to pay IIT on their worldwide income shall therefore include the overseas income together with their income sourced in China. In order to avoid or reduce double taxation, those taxpayers can claim a credit for the foreign tax (FTC) paid in the overseas jurisdiction, in accordance with the relevant regulations.

The formula for computing the FTC limit is the following:

FTC

$$= \text{China IIT payable on worldwide income} \times \frac{\text{Overseas taxable income}}{\text{Overseas and China taxable income}}$$

The overseas-sourced income shall be filed by the taxpayer from March 1st to June 30th following the end of the tax year in which the income is received, together with documentation to support the FTC claim, such as official certificates of tax payments from overseas tax authorities.

3.10 Non-taxable income

Certain categories of income are exempted from the IIT. These include awards granted by government authorities to individuals for achievements in science, technology, culture, sports, etc.... , interest from state obligations, welfare benefits and relief payments, insurance indemnities, certain payments to military and armed force members, allowances, pension and retirement allowances to veterans and other public servants, income of diplomatic representatives and officers in foreign embassies and consulates, and other tax – exempted income according to international treaties signed by China with other jurisdictions.

3.11 Preferential IIT rate in certain regions

In certain areas, local authorities provide several IIT preferential policies for eligible individuals. Currently, such policies are implemented in Hainan Free Trade Port and in certain cities of the Great Bay Area (GBA) in southern China.

Preferential IIT policies generally consist of an exemption from the part of the IIT burden of the individual taxpayer exceeding the 15% threshold, and apply to comprehensive income, business income and talent subsidies received from government bodies.

In order to be eligible, an individual taxpayer shall belong to the talents recognized by the local Human Resource department, obtain income exceeding a certain threshold, and work in the region for the prescribed period of time. Those qualified individuals shall, however, prepay the IIT according to the national regulations but can apply for the preferential IIT policy and obtain a refund of the exceeding IIT paid during the tax year.

For instance, Hainan Free Trade Port grants the preferential IIT policy for the period 2020 - 2024, consisting of the exemption from the part of IIT exceeding 15%, to talents recognized in the Catalogue of Demanded Talents in the Hainan Free Trade Port Industry, and working in specific industries (tourism, modern services, high-technology, agriculture, medical, education, sport, telecommunication, internet, culture,

maintenance, finance, shipping, logistics, construction and offshore gas / oil, and other industries listed by authorities), working for more than 6 months in one tax year in the Hainan Free Trade Port for an employer registered therein, and obtaining an income exceeding CNY 300,000.

Eligible talents can benefit from the preferential IIT policy at the time of the annual IIT settlement, from March 1st to June 30th of the following year.

In addition, starting from 2025, the State Council announced a planned measure to limit the IIT brackets on comprehensive and business income for certain categories of individuals residing and working in Hainan Free Trade Port.

Nine cities in the GBA (Guangzhou, Shenzhen, Foshan, Zhaoqing, Dongguan, Zhuhai, Jiangmen, Huizhou, and Zhongshan) implemented locally similar provisions, granting to eligible individuals subsidies equal to the portion of the IIT paid in the GBA exceeding the 15% threshold for the period 2019 – 2023.

4. Company income tax

The Company Income Tax Law ³(CIT Law) was promulgated by the National People's Congress on March 16th, 2007, and entered into force from January 1st, 2008, responding to the demand of an action able to adapt the CIT treatment of domestic and foreign invested enterprises. The CIT Law was amended a first time on February 24th, 2017, and a second time on December 29th, 2018.

The CIT Law, together with the CIT Law Implementing Rules ⁴(CITIR) is the main legislative source regulating the application of the CIT in China.

4.1 CIT liability

The CIT is levied on taxable income derived by resident and non-resident enterprises. For the purpose of the taxation, are considered as residents those enterprises that are incorporated in China or incorporated outside China but effectively managed and controlled in China. Resident enterprises are taxed on their worldwide income.

Non-resident enterprises are those not included in the definition of resident enterprises and can be further divided into two categories: non-resident enterprises with an establishment in China, and non-resident enterprises without an establishment in China.

Status of the enterprise	Taxable income
Resident enterprise (incorporated in China or effectively managed and controlled in China)	Worldwide income, consisting of income sourced in and outside China
Non-resident enterprise with an establishment in China	Income sourced in China and the income sourced outside China that is connected to the establishment
Non-resident enterprise without an establishment in China	Income sourced in China only (DTAs may apply).

Table 11 CIT liability according to tax residence.

An establishment, as provided in the CITIR, is defined as a

- Management, business, and representative offices;
- Farms, factories, or places for the exploitation of natural resources;

³ Law of the People's Republic of China on Company Income Tax (Revised in 2018) Order of the President of the People's Republic of China (2018) No.23

⁴ Implementing Regulations of the Company Income Tax Law of the People's Republic of China (Revised in 2019), Order of the State Council of the People's Republic of China (2019) No. 714

- Places where labor services, construction, installation, assembly, repair, and exploitation, etc.... are provided; and
- Other organizations and places wherein production and operation activities are conducted.

In addition, individuals and business agents entrusted by a non-resident enterprise to conduct production and operation activities in China, sign contracts, deliver or store commodities on behalf of the non-resident enterprise on a regular basis shall be deemed an establishment in China of the non-resident enterprise.

The tax year begins on January 1 and ends on December 31.

4.2 CIT tax rate

The standard CIT rate is 25%; however, eligible enterprises can benefit from reduced and preferential rates:

- Technology enterprises with high-tech certificates are eligible for a reduced rate of 15% for the 3-year period of validity of the certificate;
- Enterprises operating in key software industries and integrated circuits design are eligible for a reduced CIT rate of 10%;
- Qualified enterprises established in special areas (i.e., Hainan Free Trade Port, Shanghai Lingang New Area, etc...) and operating in encouraged industries can enjoy a reduced CIT rate of 15%;
- Enterprises operating in encouraged industries and established in the Western regions are eligible for a 15% reduced rate;
- Enterprises operating in certain advanced industries and established in a pilot free trade zone are eligible for a 15% reduced rate;
- Small low-profit enterprises with a taxable income up to CNY 3 million, a number of employees not exceeding 300 and total assets not exceeding CNY 50 million, are eligible for a reduced CIT rate of 20% to be applied on part of the taxable income. Generally, the 20% is applied on 25% of the taxable income up to CNY 1 million (leading to an actual tax rate of 5% on the first million CNY of profit), and on 50% of the portion of taxable income exceeding CNY 1 million and up to CNY 3 million (leading to an actual tax rate of 10% on this portion.
 - In 2021 and 2022, the tax burden on the first CNY 1 million is halved, and the 20% tax rate is applied on 12.5% of the taxable

income up to CNY 1 million, leading to an actual tax rate of 2.5% on this portion.

- From 2022 to 2024, the tax burden on the part of taxable income from CNY 1 million to CNY 3 million is halved, and the 20% tax rate is applied on 25% of that part of taxable income, leading to an actual tax rate of 5 % on this portion.

4.3 CIT computation and filing

The CIT is charged annually and based on the taxpayer's taxable income, which is the remaining amount of its gross income after deducting the non-taxable, tax-exempt, other permitted deductible items and the prior years' carry-forward losses.

Taxpayers shall file and prepay the provisional CIT within 15 days after the end of each quarter (namely 15th April, 15th July, 15th October, and 15th January of the following year), and perform an annual CIT settlement within 31st May of the following year. Taxpayers that prepaid CIT exceeding the actual CIT payable can apply to obtain a refund of the overpaid CIT, while taxpayers that prepaid less CIT than the actual amount shall pay the difference at the time of the settlement).

CIT application to non-resident enterprises with an establishment in China

When a non-resident enterprise has an establishment in China, the income sourced in China and sourced outside China that is connected to such establishment are subject to CIT in China at the standard CIT rate of 25%. The profit attributable to the establishment is generally calculated according to two methods: the actual profit method and the deemed profit method.

According to the actual profit method, the establishment is taxed in China according to its actual profit. However, this method is not used very often in practice due to complexity and difficulty in assessing the profit attributable to the establishment. For such reason, the deemed profit method is more easily accepted by the tax authorities in China for its simple implementation. Based on the deemed profit method, the profit attributable to the establishment is calculated by applying a deemed profit rate to the expenses, that may vary according to the industry and the type of services: for construction, design, and consulting services, the deemed profit rate ranges from 15% to 30%.

CIT application to non-resident enterprises without an establishment in China

Non-resident enterprises without establishment in China are taxed on their income sourced in China through the withholding system. The general withholding tax rate is 20%, reduced to 10% for passive income such as royalties, interest, and dividends, and reduced further by applicable double tax agreements.

4.4 Taxable income

Income subject to CIT includes:

- Revenue from the sales of goods and the provision of services;
- Proceeds from the transfer of tangible and intangible properties;
- Dividends received from private and listed companies;
- Interest, royalties, and rental income
- Income from donations; and
- Other income.

4.5 Deductions

A taxpayer subject to CIT can deduct reasonable expenses, costs, and fees incurred during the production, business, operation and other revenue and income-generating activities. Such items include:

- Costs related to the cost of sales, cost of goods sold, cost of services, and other expenditures incurred in the course of manufacturing or business operating activities;
- Expenses related to the sales, general, administrative, and financial expenditures incurred in the course of manufacturing or business operating activities;
- Reasonable salaries, wages, and other employees' remuneration, and social insurance and housing fund contributions;
- Depreciation and amortization costs related to capital expenditures that are capitalized among the long-term assets;
- Certain categories of taxes and duties, other than CIT and recoverable VAT;
- Asset losses from counting shortages, damages or disposals of fixed assets and inventories;
- Losses from the transfer of properties, doubtful debts and bad debts and other losses actually incurred during the production and business operations.

Depreciation costs

Costs incurred by the taxpayer in relation to the depreciation of fixed assets can be deducted for CIT purposes. Depreciable fixed assets are those employed by the taxpayer during the production and other business activities that can be used for more than 12 months.

The tax base of a fixed asset consists of its historical cost if purchased, or the expenditures incurred for the completion of the asset in case it is self-built.

Depreciation costs are computed according to the straight-line method, based on the useful life of the asset. **Table 12** provides the minimum useful life stipulated by the CIT Law for the different categories of fixed assets.

Asset class	Minimum useful life
Houses, buildings and structures	20 years
Aircrafts, trains, vessels, machinery and other production equipment	10 years
Appliances, tools, and furniture related to business activities	5 years
Transport vehicles other than aircrafts, trains, and vessels	4 years
Electronic equipment and devices	3 years

Table 12 Minimum useful life of fixed assets stipulated by CIT Law.

The fixed assets other than real estate property, newly acquired by a taxpayer from January 1st, 2018, to December 31st, 2023, with a unit value not exceeding CNY 5 million, can be deducted in one lump sum in the year of acquisition without depreciating the fixed asset over its useful life.

In addition, micro, small, and medium enterprises acquiring during 2022 fixed assets other than real estate property, with a unit value of more than CNY 5 million, can deduct a certain percentage of the value based on the minimum depreciation period stipulated in the CITIR:

- 100% of the unit value of assets with a minimum depreciation period of 3 years; and
- 50% of the unit value of assets with a minimum depreciation period of 4, 5, and 10 years.

R&D expenses

Taxpayers engaged in R&D activities can account for R&D expenses and enjoy an extra-deduction of 100% in addition to the deduction allowed for the actual expenses incurred, providing that such R&D expenses are not capitalized into intangible assets. The policy is extended to December 31st, 2023.

Commercial insurance fees

Insurance premiums incurred by the taxpayers are generally not deductible, excepts for premiums paid for personal safety insurance for workers, property insurance, and other deductible commercial insurances as stipulated by the CITIR.

Business entertainment expenses

Business entertainment expenses incurred by the taxpayer in relation to the production and business activities are deductible to the extent of 60% of the actual amount and capped to 0.5% of the yearly operating sales revenue. The portion exceeding the thresholds cannot be deducted.

Advertising expenses

Advertising and promotional expenses can be deducted up to 15% of the sales revenue. Any excess can be carried forward to the following tax year.

Commissions

Expenses related to commissions can be deducted only for the part up to 5% of the total income specified in the relevant service agreements.

Welfare expenses

Welfare expenses incurred by the taxpayer can be deducted only within 14% of the deductible cost incurred for salaries and wages.

Labor union fees

Labor union fees incurred by the taxpayer can be deducted within the limit of 2% of the deductible cost incurred for salaries and wages.

Interest expenses

Interest expenses incurred by non-financial enterprises can be deducted only for the part not exceeding the stipulated debt-to-equity ratio of 2:1.

Tax losses carry-forward

Tax losses incurred by the taxpayer can be carried forward to offset the taxable profits of the subsequent five years. The carryforward period is extended for taxpayers operating in certain industries.

Non-deductible items

Expenses, costs, and fees related to the following categories cannot be deducted for CIT purposes:

- Expenses, costs, and fees not incurred for the revenue-generating activities;
- Expenses, costs, and fees not supported by relevant documentation;
- Dividends, and other equity investment income paid to investors and shareholders;
- Fines, penalties and losses incurred from the confiscation of properties
- Management fees
- Provisions booked by the taxpayer according to the accounting standards cannot be deducted for CIT purposes, unless they are specifically allowed under the relevant tax laws and regulations. The provisions are deductible only when the related expense or cost is actually incurred by the taxpayer.
- Expenses that are accrued for accounting purposes cannot be deducted for CIT purposes; those expenses can be deducted only when they actually occur and the relevant documentation is obtained.
- Unqualified donations; and
- Sponsorship fees.

4.6 Non-taxable income

Income obtained by enterprises that can be exempted from CIT includes interest from certain government funding, interest from loans provided by certain international financial organizations, and other income approved by the State Council.

4.7 The source of the income

The source of the income shall be determined according to the provisions included in the CITIR and summarized in **Table 13**.

Item	Source criteria
Sales of goods	The place where the activity occurs

Provision of services	The place where the activity occurs
Gain from the transfer of immovable property	The place where the property is located
Gain from the transfer of movable property	The place where the transferor enterprise is located
Gain from the transfer of equity	The place where the invested enterprise is located
Dividends	The place where the enterprise paying the dividends is located
Interest	The place where the enterprise paying or bearing the interest is located
Rental	The place where the enterprise paying or bearing the rental is located
Royalties	The place where the enterprise paying or bearing the royalties is located
Other income	Determined by the State Council

Table 13 Criteria to determine the source of the income.

Withholding tax

Non-resident enterprises without an establishment in China deriving income sourced in China and related to dividends, royalties, rental income, and gain from the transfer of property are taxed in China by a withholding tax at source.

The resident enterprise that pays the income is the withholding agent in charge to withhold the tax from each payment performed to the non-resident enterprise. The withholding agent shall submit a “*CIT Withholding Report*” and remit the tax withheld within 7 days from the date when the withholding obligation arises.

For the resident taxpayer in charge to withhold the tax, the expenses and costs connected with the payment to the non-resident enterprise can be claimed only after the withholding of the tax, even if the payment to the non-resident enterprise has not yet been performed.

4.8 Anti-avoidance rules

The CIT Law provides a series of anti-avoidance rules aimed at designing a general framework in line with the principles adopted in the legal systems of other jurisdictions:

- standard on transfer prices between related parties
- standard on Controlled Foreign Companies

- standard on Advance Pricing Agreement between a Firm and Financial Administration about transaction prices between related parties
- standard on Cost Sharing Agreement that involves the deductibility of common costs charged to intra-group companies
- legal obligation to document ongoing transactions between the entity and its affiliated companies ("Related Party Transaction Annual Report")

The tax authority has also introduced a general anti-avoidance clause that enables local officials to make adjustments in a wide range of cases:

"If an enterprise engages in a business arrangement without bona fide commercial purposes that results in reducing its taxable revenue or taxable income, the tax authorities in charge have the right to make adjustments based on reasonable methods."

5. Value added tax

The Value – added tax (VAT) is the main turnover tax imposed on enterprises, units, organizations, and individuals⁵ engaging in the following taxable transactions:

- the sales of goods;
- the provision of certain labor services, such as processing, repair, and replacement services;
- the sales of services;
- the sales of intangible assets or real property;
- the import of goods.

VAT is applied on a territorial basis and is imposed on taxable transactions performed within China's territory. Overseas entities that do not have an establishment in China but perform VAT taxable transactions in the territory of China shall appoint an agent to carry out VAT obligations. Otherwise, the purchaser of the goods or services shall be considered the VAT withholding agent in charge of remitting VAT on behalf of the overseas entity.

The VAT is currently regulated by the Value-Added Tax Interim Regulations of the People's Republic of China⁶ (VATIR). The latest version, that was published on November 19th, 2017, is the result of several amendments incurred starting from the launch, on October 26th, 2011, of the pilot VAT reform to be adopted from January 1st, 2012. In late 2019, the Ministry of Finance and the State Administration of Taxation issued the Circular on Seeking Public Comments on the Value-Added Tax Law of the People's Republic of China, which will be probably promulgated in the next few years.

5.1 Small scale and general taxpayers

For the purpose of VAT, taxpayers can be divided into two categories: small scale VAT taxpayers (small-scale taxpayers) and general VAT taxpayers (general taxpayers).

General taxpayers are entities with a certain degree of organization and with a sound accounting system, that are able to compute accurately input VAT and output VAT from their transactions; those taxpayers are therefore entitled to the VAT credit system, according to which the output VAT arising from taxable transactions can be offset with deductible input VAT.

⁵ Individuals that are engaged in VAT taxable transactions shall be considered as VAT taxpayers in case their sales revenue exceeds CNY 20,000 per month (for sales of goods and provision of services), and CNY 500 per transaction per day.

⁶ Interim Value-Added Tax Regulations of the People's Republic of China (Revised in 2017), Order of the State Council of the People's Republic of China (2017) No. 691

Small-scale taxpayers are those taxpayers without a sound accounting system, with annual taxable revenue less than CNY 5,000,000. Small-scale taxpayers shall follow a simplified VAT calculation, according to which the output VAT is computed according to a lower VAT rate, but the input VAT is not allowed to be credited or deducted.

Small-scale taxpayers that are able to adopt a sound accounting system can register themselves as a general taxpayer.

5.2 VAT rates

VAT rates have been amended several times since the first introduction of the tax. Currently, the applicable VAT rates for general taxpayers are shown in **Table 14**.

No.	Taxable item	VAT rate (%)
1	Sales of goods	13
2	Leasing of movable property	13
3	Processing and repair services	13
4	Transport, postal, basic communication, construction services	9
5	Transfer of land use rights	9
6	Sale of real estate	9
7	Agricultural products, food and edible oil	9
8	Tap water, heating, air conditioning, hot water, gas	9
9	Books, newspapers, magazines, audio, video products, e-publications	9
10	Feed, fertilizers and pesticides	9
11	Dimethyl ether	9
12	Other goods stipulated by Authorities	9
13	Services not included above	6
14	Export	0

Table 14 Applicable VAT rates.

VAT exemptions

The following items are exempted from the VAT:

- agricultural products that are sold by agricultural producers;
- prophylactic drugs and devices;
- ancient books;

- instruments and equipment that are imported for scientific research, education and experiments;
- free aid provided by foreign governments;
- goods imported for the specific use of disabled persons;
- second-hand goods used and sold by individual sellers;

For certain goods imported into bonded warehouses or other areas under the supervision of the Customs, and the goods imported for processing trade and to be used as materials for other goods to be exported, are exempted from import VAT.

Mixed activities

If a general taxpayer engages in sales of goods and services that are subject to different VAT rates, it is required to account separately the sales revenue that can be allocated to each item of different VAT rates, in order to avoid the application of the highest VAT rate on the whole amount.

It shall be noted that when a general taxpayer engaged in production and sales of goods provides goods together with ancillary services that are connected with the sales of goods (for instance, installation services for the goods), the whole amount shall be subject to 13% VAT rate.

5.3 VAT calculation

The VAT liability of a general taxpayer is calculated as the difference between the output VAT and the input VAT incurred during a reporting period.

In the specific, the formula to compute the VAT payable at the end of a reporting period is:

$$\text{VAT payable in the period} = \text{Output VAT in the period} - \text{Input VAT in the period}$$

If the output VAT in the period is higher than the amount of input VAT that is allowed as a credit in the period, the taxpayer shall declare and pay the VAT payable within the filing deadline.

If the output VAT in the period is lower than the amount of input VAT that can be deducted in the period, the unutilized input VAT shall be carried forward to the next reporting period. If the general taxpayer is eligible, the excess of input VAT can be refunded.

The reporting period for a VAT taxpayer might be set by the competent tax authority, but generally, a taxpayer needs to submit a VAT filing on a monthly basis.

Output VAT

The output VAT is the amount of VAT calculated and collected by the general taxpayer on the basis of their sales activities. The formula for the output VAT is:

$$\text{Output VAT in the period} = \text{Taxable sales in the period} \times \text{Applicable VAT rate}$$

The amount of taxable sales shall include the full price that is charged by the general taxpayer, plus any additional fees and charges. Tax authorities have the power to adjust the sales revenue from taxable transactions in case the price is deemed to be unreasonably low.

Input VAT

The input VAT is the amount of VAT payable by a taxpayer when purchasing goods, services, tangible and intangible assets. The input VAT is allowed to be deducted by the general taxpayer in case the transaction is supported by a special VAT invoice issued by the seller or by the import VAT receipt obtained from the Customs. In case the general taxpayer is the party obligated to withhold and remit the VAT, the tax payment certificate issued by the tax authority can be used to support the claim for input VAT deduction.

The amount of input VAT is calculated as follows:

$$\text{Input VAT in the period} = \text{Taxable purchases in the period} \times \text{Applicable VAT rate}$$

The input VAT in a reporting period can be used as credit only in case the taxpayer has obtained a special VAT invoice from the supplier and the relevant amount of tax has been verified by the tax authorities.

When the amount of a transaction subject to VAT shall be amended, for example in case of return of defective products or in case of discount, the corresponding amount of input VAT shall be adjusted through the issuance of a red-letter special VAT invoice.

In the case of import of goods from overseas suppliers, the input VAT is computed on the gross import value, including customs duties and consumption tax, if any.

Import Input VAT in the period =

(Import price in the period + Customs duties

+ Consumption tax) x Appl.VAT rate

Import of services by a general taxpayer is also subject to VAT in China. If the overseas service provider does not have an establishment in China and has not appointed an agent, the purchaser of the service shall be in charge to withhold the VAT, according to the following formula:

$$\text{Withholding Input VAT} = \frac{\text{Amount payable to supplier}}{(1 + \text{Applicable VAT rate})} \times \text{Applicable VAT rate}$$

The VAT that is withheld by the purchaser can be claimed as deductible input VAT.

In the following cases, the input VAT incurred by the general taxpayer cannot be deducted from the output VAT:

- purchase of goods, services, tangible and intangible assets from small-scale taxpayers subject to simplified calculation;
- purchase of goods, services, tangible and intangible assets that are exempted from VAT;
- input VAT from the purchase of goods (and associated labor services), and assets that are damaged or lost in abnormal or extraordinary circumstances.

Simplified VAT calculation

Small-scale taxpayers shall determine their VAT liability based on a simplified VAT calculation, according to the following formula:

VAT payable in the period

$$= \text{Taxable sales in the period} \times \text{Applicable tax rate}$$

The input VAT incurred by small-scale taxpayers cannot be credited or deducted from the output VAT.

Small-scale VAT taxpayers subject to a 3% VAT rate on their sales revenue can be exempted from VAT from April 1st to December 31st 2022.

5.4 Refund of excess input VAT

A trial VAT refund mechanism was introduced in April 2019 by the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (Announcement [2019] No.39), jointly issued by Ministry of Finance, State Taxation Administration and General Administration of Customs.

To be eligible for a refund of incremental VAT credit, a taxpayer needs to meet all the following conditions:

- as of the taxation period of April 2019, the incremental VAT credit is greater than zero for six consecutive months (or two consecutive quarters if the VAT is paid quarterly), and the sixth month's incremental VAT credit is not less than CNY 500,000;
- the tax payment credit rating is Grade A or Grade B;
- no fraudulent VAT credit rebate or export VAT rebate and no false issuance of special VAT invoice within the 3 year period preceding the applicable tax refund.
- no more than twice tax evasion penalties within the 3 year period preceding the applicable tax refund.
- the taxpayer has not benefited from the VAT refund upon collection and VAT refund after collection policies from 1 April 2019.

The refundable incremental VAT credit refers to newly added period-end VAT credit compared with that by the end of March 2019. Therefore, VAT credit balance amounts prior to 1 April 2019 are not refundable.

The incremental VAT credit refundable to the taxpayer for the current period shall be calculated as per the following formula:

Refundable incremental VAT credit

$$= \text{Incremental VAT credit} \times \text{input VAT ratio} \times 60\%$$

The input composition ratio refers to the proportion of the VAT indicated on the offset special VAT invoice (including the unified invoice of vehicle sales for tax control) from April 2019 to the previous taxation period prior to applying for a VAT rebate, the customs import special VAT payment certificate, the remitted VAT payment receipt and all the offset input VAT for the same period.

A similar VAT refund mechanism has been introduced for taxpayers operating in advanced manufacturing industries.

In April 2022, the Announcement [2022] no. 14 by Ministry of Finance and State Administration of Taxation “on Further Enhancing the Implementation of the Policy for the Refund of Period-end Uncredited VAT” enhances the implementation of the refund of period-end uncredited VAT extending to micro and small enterprises, advanced manufacturing taxpayers (including individual businesses) and to taxpayers operating in six industries, namely “manufacturing”, “scientific research and technical services”, “electricity, heating, gas and water production and supply”, “software and information

technology services", "ecological protection and environmental governance" and "transport, warehousing and postal", together referred to as "Manufacturing and Other Sectors".

Micro and small enterprises (including individually owned businesses) will be eligible to apply for the full refund of the incremental VAT credit on a monthly basis and the refund of the existing VAT credit in a lump sum.

Taxpayers operating in Manufacturing and Other Sectors will be eligible to apply for the refund of the incremental VAT credit on a monthly basis and the refund of the existing VAT credit amount.

To be eligible, the applicant taxpayers shall meet all the following conditions:

- the tax payment credit rating is Grade A or Grade B;
- no fraudulent VAT credit rebate or export VAT rebate and no false issuance of special VAT invoice within the 3-year period preceding the applicable tax refund.
- no more than twice tax evasion penalties within the 3-year period preceding the applicable tax refund.
- the taxpayer has not benefited from the VAT refund upon collection and VAT refund after collection policies from 1 April 2019.

For the incremental VAT credit amount, before the taxpayer obtains the refund of the existing VAT credit amount, the incremental VAT credit amount shall be calculated as the increased VAT credit amount between its VAT credit amount at the end of the current period and that as at 31 March 2019. Once the taxpayer receives the existing VAT credit amount refund, the incremental VAT credit amount shall be the VAT credit amount at the end of the current period.

The existing VAT credit amount is the VAT credit amount as of 31 March 2019 or at the end of the current period, whatever is lower. Once the taxpayer receives the refund of its existing VAT credit, the existing VAT credit amount shall be zero.

For the calculation of the refundable VAT credit amount:

Refundable incremental VAT credit amount

$$= \text{Incremental VAT credit amount} * \text{input VAT ratio} * 100\%$$

Refundable existing VAT credit amount

$$= \text{Existing VAT credit amount} * \text{input VAT ratio} * 100\%$$

5.5 Export VAT refund

A refund of the input VAT is granted to general taxpayers engaging in export transactions.

According to the exporting enterprise and the category of goods (HS code), the exported goods might fall in one of the following categories:

1. Goods that are eligible for output VAT exemption when exporting and granting refund of the input VAT incurred at the date of purchase. Most of the exported goods fall into this category.
2. Goods that are eligible for output VAT exemption but not granting refund of the input VAT. Goods falling into this category are generally goods for which the exporting enterprise has not paid input VAT at the date of purchase (if the enterprise incurred in input VAT, this is not recoverable. In such case, exporting enterprises could abandon the VAT exemption treatment and consider the export transaction as domestic sales, and offset output VAT with relevant input VAT); and
3. Goods that are not eligible for output VAT exemption and not granting refund of the input VAT incurred at the date of purchase. Goods in this category have their export restricted or banned by the authorities, and their export transaction shall be considered as domestic sales, with input VAT incurred by the exporting enterprise creditable against output VAT.

To be eligible for the VAT exemption and refund, the goods shall be exported by qualified “export enterprises”, which have completed their administrative, tax, and foreign trade operator registration and are engaged in the export business. The mechanism of the VAT exemption and refund differs according to the type of activities carried out by the export enterprise:

- the Exemption, Credit, and Refund (ECR) method applies to export enterprises engaging in manufacturing activities and exporting self-produced goods. According to the Exemption, Credit, and Refund method, the goods exported by the export enterprise are exempted from output VAT. Then the input VAT incurred by the export enterprise is offset with the output VAT arising from domestic sales. Subsequently, the excess of input VAT can be claimed for a full or partial refund. Goods exported by manufacturing enterprises under trading business mode would not be eligible for the refund.
- the Exemption and Refund (ER) method applies to export enterprises engaging in trading activities and exporting goods purchased from other entities. Based on the ER method, the goods exported by the export enterprise are exempted

from output VAT, and the input VAT incurred when purchasing the exported goods can be refunded according to the VAT refund rate.

The refundable amount of VAT depends on the VAT refund rates associated with the exported goods. These rates can vary according to the government policies and can be 13% (full refund) or lower. If the exported goods cannot grant a full refund, then the non-refundable VAT shall be recorded as a cost for the exporting enterprise.

Enterprises engaging in export business can apply for the VAT refund by completing an administrative procedure at the time of the first tax refund filing. According to the Announcement of the State Administration of Taxation (2015) No. 56, the procedure requires the submission of the following documents:

- tax refund and Exemption Filing Form;
- Registration Form of Foreign Trade Operator or the Certificate of Approval for Establishment of Foreign Invested Enterprises in the PRC;
- Certificate of Registration for Customs Clearance Entities in the PRC.
- other documents that may be required by the competent tax authority.

Once submitted the first filing, tax authorities may perform an onsite visit of the exporting enterprise in order to verify the business operations and if the enterprise has proper premises and staff.

Subsequently, export enterprises qualified for the refund shall submit the Declaration Form for Tax Refund of Production Enterprise to the tax authorities on a monthly basis, along with additional information related to the export transactions carried out, the proof of payment collection etc....

Export enterprises applying for VAT refund must remind that they shall handle export refund applications related to export transactions carried out during the year before the half of April of the following year. In case of lack of documentation or improper filings, the export enterprise would be required to return the VAT refund and consider the underlying transaction as domestic sales subject to VAT.

6. Customs duties

The General Administration of Customs of China (GACC) exercises control of the borders and is in charge to collect customs duties (CD) and fees on goods. GACC imposes import CD on imports into China and export CD on a few categories of goods exported overseas.

Generally, the CD is computed by ad valorem, and only in a few cases is calculated by quantity. The formulae are:

CD, by ad valorem = Dutiable value x Duty rate

CD, by quantity = Quantity of the goods x Duty amount per unit

Taxpayers of CD are the consignee of the imported goods and, in the case of a dutiable export transaction, the consigner of the exported goods.

6.1 Import customs duties

The import CD is computed according to the CD rates associated to each category of goods (identified by their HS code) and, to a certain extent, the country of origin of the imported goods.

Import CD rates can be divided into:

- most-favoured-nation (MFN) CD rates, that are the duty rates applicable to goods originating from countries and regions that are WTO members, or that have concluded a trade agreement with MFN provisions with China;
- special preferential CD rates, that are those applicable to goods from less-developed countries and regions that have concluded a special preferential tariff agreement with China;
- conventional CD rates, that are applicable to goods originating from countries and regions that have concluded a regional trade agreement with China; and
- general CD rates, that are applicable to goods originating from countries and regions that have not concluded a trade agreement with China.

In addition, there are also provisional CD rates that are temporarily imposed on certain categories of goods.

The dutiable value that is subject to CD consists of the purchase price (or the value) of the imported goods, plus transportation and insurance costs incurred prior of the arrival of the goods in China.

6.2 Export customs duties

GACC imposes export CD on the exporting entity for the export of certain goods: the dutiable value is the export price plus ancillary costs and expenses incurred by the exporter until the goods arrive at the export port.

6.3 Customs duties exemptions

Goods that are imported in China under a bonded status can enjoy a temporary CD exemption, provided that they are stored in bonded warehouses or other areas under the special customs supervision, or they are employed in the manufacturing of finished goods for export under the processing trade method (processing trade of imported materials, and processing trade of supplied materials). A CD relief also applies to goods that are temporarily imported into China for the purpose of exhibition, events, sport, and cultural events.

6.4 Free trade agreements

A free trade agreement (FTA) is a treaty between two or more participant members (generally countries) aimed to reduce the trade barriers and customs duties by offering preferential tariffs for goods and services traded among the participant members.

By signing a trade agreement, the participant members intend to create a more stable, transparent and competitive trade environment.

FTAs apply the preferential rules of origin, according to which only goods originated in a participant party could benefit from the provisions of the FTA. Goods originated in third party countries could not take advantage of the preferential treatment under the FTA.

FTAs generally covers also trade in services and includes investment provisions and the preferential treatment is related to both tariff and non-tariff barriers.

To benefit the preferential treatment granted under an FTA, it is important to understand the concept of the origin of the goods and what are the rules applied to determine it.

The origin of the goods is basically their economic nationality and it shall be declared when the traded goods pass through the Customs of the importing country.

Under an FTA, the origin of the goods could be preferential and non-preferential: the preferential origin qualifies the goods as originating good and determines its eligibility for the preferential treatment under an FTA.

The rules of origin are based on the harmonized system classification (HS classification), which is the harmonized commodity description and coding system of goods set by WTO and used in the international trade. In principle, the HS codes are harmonized in most countries, but there may be some exceptions.

The specific rules of origin for each of the HS codes in an FTA are negotiated by the members and are generally provided as an attachment or annex of the agreement. Therefore, the rules of origin could vary among different agreements.

Generally, there are two main types of rules for determining the origin of the goods:

- Wholly obtained criterion; and
- Substantial transformation criterion.

Wholly obtained criterion

A wholly obtained product is a good obtained entirely in the territory of a Party of an FTA, without the addition of any non-originating materials. In certain cases, a wholly obtained product could be produced or manufactured from wholly obtained materials.

Substantial transformation criterion

According to this type of rule of origin, the good is required to undergo a certain process in order to be considered as originating good in a given Party. The substantial transformation could be expressed from:

- change in tariff classification: this rule requires that a non-originating material/good shall undergo a change in HS classification in order to obtain originating status;
- value added calculations: this rule requires that a certain percentage of the total value of the final product to be added in the territory in order to obtain originating status (i.e., Regional Value Content); and
- specific processing: this rule requires that a specific processing shall be undertaken at a particular stage of the production process

FTA network

To promote the international trade of goods, China has stipulated a number of FTAs with trading partners, aimed to reduce or exempt customs duties.

7. Other taxes

7.1 Consumption tax

Entities and individuals engaged in the production, import and sale of certain consumer products are subject to consumption tax according to the Interim Regulation of the People's Republic of China on Consumption Tax (CTIR)⁷. Consumption tax can be levied at a fixed rate, or at a fixed amount according to the volume of goods, or by using a compound formula that envisages a fixed tax rate and a fixed amount per unit of volume.

Tobacco

Consumption tax is levied on cigarettes, cigars, and cut tobacco.

Cigarettes are subject to consumption tax at the production stage according to a certain percentage (56% at fixed rates for grade – A cigarettes, and 36% for grade – B cigarettes) plus CNY 0.003 per stick. In addition, at the sales stage, with 11% fixed rate plus CNY 0.005 per stick.

Cigars are subject to consumption tax of 36%, while cut tobacco is subject to 30% consumption tax, both at the production stage.

Liquors

Consumption tax on liquors is applied according to the type of the product:

- white liquors, or baijiu, are subject to tax at a 20% rate, plus CNY 0.5 per 500 g or 500 ml.
- yellow spirits are subject to CNY 240 tax per tonne (962 liters);
- grade – A beers are subject to CNY 250 per tonne (988 liters);
- grade – B beers are subject to CNY 220 per tonne (988 liters); and
- other alcoholic drinks are subject to a 10% tax rate.

High-end cosmetics

A consumption tax of 15% is levied on high-end cosmetics, including high-end skincare cosmetics, high-end beauty and make-up cosmetics. High-end cosmetics refer to cosmetics for which the selling price or the custom value (excluding VAT) at the manufacturing / import stage is at least CNY 10/ml (g) or CNY 15/pc.

⁷ Interim Regulation of the People's Republic of China on Consumption Tax, Order of the State Council of the People's Republic of China (2008) No. 539

Luxury jewels, jade, pearls and ornaments

Ornaments made of gold, silver, or platinum, diamonds and diamond ornaments are subject to 5% consumption tax. Other luxury ornaments, jewels, pearls, and jade are subject to 10% consumption tax.

Firecrackers and fireworks

Firecrackers and fireworks are subject to 15% consumption tax.

Processed oils

Petrol, naphtha, menstruum oil, and lubricants are subject to CNY 1.52 tax per liter of product, while fuel oil, diesel oil, and aviation fuels are taxed according to CNY 1,20 per liter.

Motorcycles

For the purpose of the consumption tax, motorcycles are divided into motorcycles with a cylinder capacity of 250 milliliters, which are taxed at a 3% consumption tax rate, and motorcycles with a cylinder capacity over 250 milliliters, which are instead subject to a 10% tax rate.

Motorcars

Motorcars subject to consumption tax consist of passenger vehicles, small and medium-sized commercial buses, and ultra-luxury cars (with a retail value of more than CNY 1.3 million).

Passenger vehicles are subject to consumption tax ranging from 1% to 40% according to the cylinder capacity, while small and medium sized commercial buses are subject to a 5% tax rate. Both the categories are taxed at the production or the import stage. Passenger vehicles and small and medium sized commercial buses with a retail value of more than CNY 1.3 million (excluding VAT) are considered ultra-luxury cars and subject to an additional consumption tax of 10% at the retail stage.

Golf balls and golf equipment

Golf balls and golf equipment, including golf bags and golf clubs, are subject to 10% consumption tax.

Luxury watches

Watches with a sales price of CNY 10,000 or more (excluding VAT) are subject to 20% consumption tax.

Yachts

Yachts, which are defined as engine equipped vessels between 8 and 90 meters for entertainment and non-profit making activities, are taxed at 10% rate.

Disposable wooden chopsticks

A 5% consumption tax is levied on disposable wooden chopsticks.

Solid wooden floorboards

Solid wooden floorboards are subject to a 5% consumption tax rate.

Batteries

For energy conservation and environmental protection, the production, processing and import of batteries are subject to consumption tax of 4%.

Batteries of the following types shall instead be exempted from consumption tax: mercury-free batteries, nickel-metal hybrid batteries, lithium primary batteries, lithium-ion batteries, solar batteries, fuel cells and all-vanadium redox flow batteries.

Coatings

Coatings refer to materials used to be painted on the surfaces of objects to form a solid film for protection, decoration and other purposes, and the production, processing and imports are subject to 4% consumption tax.

Coatings with contents of volatile organic compounds (VOC) under 420 g/l are exempted from consumption tax.

7.2 Local additional surcharges

Local additional surcharges (LAS) refer to three different types of surtaxes that are levied on taxpayers of value-added tax, consumption tax, and previously business tax. These surtaxes consist of the urban maintenance and construction tax⁸ (UMCT), education surcharge⁹, and local education surcharge.

UMCT is levied according to the location of the taxpayer (7% for taxpayers located in the city, 5% for county/town area, and 1% for other area), while education surcharges and local education surcharges are levied at a flat tax rate of 3% and 2% respectively.

⁸ Law of the People's Republic of China on Urban Maintenance and Construction Tax, Order of the President of the People's Republic of China (2020) No. 51

⁹ Interim Provisions on the Collection of Education Surcharge, Order of the State Council of the People's Republic of China (2011) No. 588

The base for the surcharges is the total VAT, CT, and business tax payable by the taxpayer in a certain period.

A reduction or exemption of the LAS is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.3 Stamp duty

The execution and the use of certain contracts, agreements, and documents in China are subject to stamp duty according to the Stamp Duty Law of the People's Republic of China¹⁰ (*SD Law*).

Contracts related to purchase and sales transactions, construction, and installation projects, hired works, transportation, and technology (development, transfer, consultancy and service) are subject to a 0.03% stamp duty rate of the contractual amount, to be paid by both parties to the contract.

Contracts related to loans and financial leasing are subject to 0.005% stamp duty rate of the loan or leasing amount, to be paid by both parties to the contract.

Contracts related to rental, deposit, warehousing, and property insurance are subject to 0.1% stamp duty rate on the contractual amount, to be paid by both parties to the contract.

Documents related to the transfer of land use rights, title to buildings, equity, exclusive right to use a trademark, a copyright, a patent, and technology, and granting land use rights, the stamp duty rate is 0.05% of the amount indicated in the document, to be paid by the party that initiated the document.

Business account books are subject to 0.025% of the total amount of paid-in capital and reserve, while the other books of account shall be subject to CNY 5 per book, to be paid by the taxpayer establishing the books of account.

A reduction or exemption of the stamp duty, excluding that applicable to security transactions) is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.4 Land appreciation tax

The land appreciation tax (LAT, called also land value-added tax) is levied on the value-added derived from the transfer of land, buildings, and structures. The value-

¹⁰ Stamp Tax Law of the People's Republic of China, Order of the President of the People's Republic of China (2021) No. 89

added is calculated as the difference between the total income and the deductible items. The LAT is charged to taxpayers according to four range of appreciation percentages:

- for the part of the value-added amount which is less than 50% of the amount of deductible items, the LAT rate is 30%;
- for the part of the value-added amount which is between 50% and 100% of the amount of deductible items, the LAT rate is 40%;
- for the part of the value-added amount which is between 100% and 200% of the amount of deductible items, the LAT rate is 50%; and
- for the part of the value-added amount exceeding 200% of the amount of deductible items, the LAT rate is 60%.

The total income is calculated by including both monetary and in-kind income, while allowed deductions consist of the cost of land use rights, the costs and expenses incurred for the land development and construction of new buildings and auxiliary structures, the assessed price paid for old buildings, taxes related to the assignment of real estate.

7.5 Real estate tax

The real estate tax (RET) is imposed on entities and individuals owning houses within cities, counties, towns, and industrial and mining districts within China, according to one of the following two methods:

- for self-used real estate properties, the RET is levied at a rate of 1.2% of the adjusted cost of the property, with a deduction of 10% - 30% of the original cost; or
- for real estate properties that are rented out, the RET is levied at a rate of 12% of the annual rental income, including both monetary and non-monetary income.

RET shall be paid annually by two or four instalments according to the provisions stipulated by the competent local authorities.

A reduction or exemption of the RET is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.6 Urban and Township Land Use Tax

The Urban and Township Land Use Tax (UTLUT) is the tax imposed on entities and individuals using land in cities, county towns, administrative towns, and industrial and

mining districts within China. The UTLUT rate depends on the location, but generally can vary from CNY 0.6 to CNY 30 for square meter.

A reduction or exemption of the UTLUT is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.7 Farmland Occupation Tax

The Farmland Occupation Tax (FOT) is levied on entities and individuals that occupy farmland to construct buildings or to carry out non-agricultural activities. The applicable rates for FOT depend on the total area (in mu, equal to 667 sqm) per capita for the region.

Area per capita	FOT amount per sqm
1 mu or less	CNY 10 – CNY 50
Between 1 and 2 mu	CNY 8 – CNY 40
Between 2 and 3 mu	CNY 6 – CNY 30
More than 3 mu	CNY 5 – CNY 25

Table 15 FOT amount according to the area per capita for the region.

A reduction or exemption of the FOT is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.8 Deed tax

A deed tax (DT) ¹¹ is imposed on the assignment and transfer of land use rights and buildings ownership rights, resulting from the sale, donation, and exchange.

The tax is imposed at rates ranging from 3% to 5%, according to the rate set by the government in each province, autonomous region, and municipality, on the value of the land use rights or building ownership rights; in case of exchange of land use or building ownership rights, the basis for the deed tax is the difference between the values of the exchanged assets, while in case of donation, the tax is calculated according to the value assessed by the competent tax authorities, taking into consideration the market price of the assets.

Deed tax is paid only by the transferee of the land use or building ownership rights.

¹¹ Law of the People's Republic of China on Deed Tax, Order of the President of the People's Republic of China (2020) No.52

7.9 Resource tax

The resource tax¹² is levied on entities and individuals that engage in the exploitation of various mineral resources or production of salt within the territory of China.

The taxable resources are crude oil, natural gas, coal, other non-metal ores, ferrous ores, non-ferrous ores, and salt, according to different per unit amount.

A reduction or exemption of the resource tax is available for small scale VAT taxpayers and small – low profit enterprises from 1 January 2022 to 31 December 2024.

7.10 Vehicles and Vessels Tax

The Vehicles and Vessels Tax¹³ is levied on owners and administrators of certain vehicles and vessels within the territory of China,

Vehicles within the scope of the tax include passenger cars, commercial vehicles (such as buses, trucks, and trailers), special operation and wheeled mechanical vehicles (such as forklifts, excavators, cranes), and motorcycles. Taxable vessels consist of motor vessels, tugboats, and yachts.

The tax shall be paid on an annual basis and the taxpayer undertakes the tax liability in the month when the ownership or administration right of the vehicles and vessels is obtained.

New energy vehicles and vessels might have a reduction or exemption from the tax.

Item	Tax unit	Annual tax
Passenger vehicles (≤ 9 seats)		
Below or 1.0L (included)	Per vehicle	CNY 60-360
1.0L – 1.6L (included)	Per vehicle	CNY 300-540
1.6L – 2.0L (included)	Per vehicle	CNY 360-660
2.0L – 2.5L (included)	Per vehicle	CNY 660-1,200
2.5L – 3.0L (included)	Per vehicle	CNY 1,200-2,400
3.0L – 4.0L (included)	Per vehicle	CNY 2,400-3,600
Above 4.0L	Per vehicle	CNY 3,600-5,400

¹² Law of the People's Republic of China on Resource Tax, Order of the President of the People's Republic of China (2019) No.33

¹³ Law of the People's Republic of China on Vehicle and Vessel Tax (Revised in 2019), Order of the President of the People's Republic of China No. 29

Item	Tax unit	Annual tax
Commercial vehicles		
Passenger vehicles (> 9 seats)	Per vehicle	CNY 480-1,440
Cargo vehicles	Per ton based on curb-weight	CNY 12-120
Trailers	Calculated as 50% of cargo vehicles	
Other vehicles		
Special operation vehicles	Per ton based on curb-weight	CNY 16-120
Wheel mechanical vehicles	Per ton based on curb-weight	CNY 16-120
Motorcycles	Per vehicle	CNY 36-180
Vessels		
Powered vessels	Per net based on net weight	CNY 3-6
Tugboats / Non-powered barges	Calculated as 50% of powered vessels	
Yachts	Length of hull (m)	CNY 600-2,000

Table 16 Applicable Vehicles and Vessels Tax rates

7.11 Vessel Tonnage tax

The Vessel Tonnage tax¹⁴ (VTT) is levied on any vessel entering a Chinese port from overseas. The amount of tax is calculated according to the net tonnage, the validity term of the tonnage tax certificate and the applicable tax rate.

Vessels of China or another country that has entered into an agreement with China with a mutually offered most-favored-nation treatment provision on vessel taxes are subject to the preferential rates set in **Table 17**.

Net tonnage	Terms tonnage tax certificate and tax rates					
	General rates (CNY/ton)			Preferential rates (CNY/ton)		
	1y	90d	30d	1y	90d	30d
Up to 2,000 tons	12.6	4.2	2.1	9.0	3.0	1.5
2,000-10,000 tons	24.0	8.0	4.0	17.4	5.8	2.9
10,000-50,000 tons	27.6	9.2	4.6	19.8	6.6	3.3
Over 50,000 tons	31.8	10.6	5.3	22.8	7.6	3.8

Table 17 Applicable tax rates for Vessel Tonnage tax.

¹⁴ Law of the People's Republic of China on Vessel Tonnage Tax (Revised in 2018), Order of the President of the People's Republic of China No.16

7.12 Tobacco Leaf Tax

The Tobacco Leaf tax¹⁵ (TLF) is the tax imposed on entities purchasing tobacco leaves within the territory of China. The basis of the tax is the total price paid by the taxpayer and the tax rate is 20%.

7.13 Environmental protection tax

The Environmental Protection tax¹⁶ (EPT) is levied on entities emitting air and water pollutants, solid wastes, and noise pollution in the territory of China. The EPT is regulated by the Law of the People's Republic of China on Environmental Protection Tax (*EPT Law*).

The tax basis for the EPT is calculated according to the following:

- for air and water pollutants, the tax basis shall be determined based on the pollution equivalent number¹⁷ converted from the amount of pollutant emissions;
- for solid wastes, the tax basis shall be determined based on the quantity of solid wastes discharged;
- for noise pollution, the tax basis is calculated according to the decibels in excess of the national standard.

Item	Tax unit	Tax amount
Air pollutant	Per pollution equivalents	CNY 1.2-12
Water pollutant	Per pollution equivalents	CNY 1.4-14
Solid wastes	Per ton	CNY 5-25
Dangerous solid wastes	Per ton	CNY 1,000
Noise pollution	Per decibels in excess	CNY 350-11,200 / month

Table 18 Applicable tax rates for EPT.

The EPT shall be exempted in case of taxable pollutants emitted from agricultural production¹⁸, by motor vehicles, locomotives, non-road machinery, ships, and aircraft, by lawfully established centralized urban sewage and domestic waste treatment

¹⁵ Law of the People's Republic of China on Tobacco Leaf Tax,

¹⁶ Law of the People's Republic of China on Environmental Protection Tax, Order of the President of the People's Republic of China (2016) No.61

¹⁷ The pollution equivalent number shall be the emission amount of the pollutants divided by the pollution equivalent value of each category of air and water pollutant, according to the provisions of the EPT Law.

¹⁸ Excluding scale-intensive farming.

facilities without exceeding the national or the local standards, and solid wastes utilized by the taxpayer in line with the national or local standard of environmental protection.

8. Transfer pricing

8.1 General framework

Transfer pricing refers to the methods used to set the price of goods, assets, and services between related parties, which are enterprises under common control or ownership. Due to the special relationship, related party transactions might be priced in order to transfer profits from jurisdictions with high tax rates to jurisdictions with lower tax rates, and therefore be different from the price that could be agreed between two independent parties.

Chinese tax authorities have issued in the past years several regulations and clarifications about the disclosure of these transactions, and accepted methodologies, and the conduction of transfer pricing audits. In particular, the main regulations are from the Announcement of the State Administration of Taxation on Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (*SAT Announcement [2016] No. 42*) and the Announcement of the State Administration of Taxation on Issuing the Administrative Measures for Special Tax Audits and Adjustments and the Mutual Agreement Procedure (*SAT Announcement [2017] No. 6*).

8.2 Related-party definition

An enterprise is a related party to another enterprise, organization or individual if one of the following conditions is met:

- one party directly or indirectly owns at least 25% of the equity of another party or a third party directly or indirectly owns at least 25% of both parties;
- one party takes a loan from another party (other than an independent financial institution) in an amount equal to or more than 50% of the borrower's actual paid-in capital, or 10% or more of the total debts are guaranteed by another party (other than an independent financial institution);
- more than half of the senior management or at least one senior member of the board of directors who may control the board of one party is appointed by another party, or at least half of the senior management or at least one senior member of the board of directors who may control the board of both parties is appointed by the same third party;
- more than half of the senior management of one party are also senior management of another party, or at least one senior member of the board of

directors who may control the board of one party is also a senior member of the board of directors of another party;

- the normal operation of production or business of one party is dependent on the industrial property or proprietary technology licensed by another party.

8.3 Contemporaneous documentation

The contemporaneous documentation to be prepared for transfer pricing consists of the master file, the local file, and the special issue file.

Master file

The requirement of the master file applies to enterprises that during the year have carried out overseas related-party transactions for an aggregate value exceeding CNY 1 billion or to enterprises that have carried out transactions with overseas related parties and which financial statements are consolidated by an ultimate holding company that has prepared a master file. In the second case, the master file is prepared by the ultimate holding company and shall be provided to the Chinese subsidiary.

The master file shall be prepared within 12 months from the fiscal year end of the group's ultimate holding company.

Local file

Enterprises required to prepare the local file are those with:

- an annual sum of related-party transactions related to tangible assets exceeding CNY 200 million;
- an annual sum of related-party transactions related to intangible or financial assets exceeding CNY 100 million; or
- an annual sum of other related-party transactions (including services) exceeding CNY 40 million.

The related-party transactions covered by an advanced pricing agreement shall not be included in the local file.

The local file shall be prepared by the enterprise by June 30th of the following year.

Special issue file

A special issue file is required if the enterprise has entered or has implemented a cost-sharing agreement or falls under the thin capitalization requirement, with a debt-to-

equity ratio exceeding 2:1 (for non-financial enterprises) and 5:1 (for financial enterprises).

The special issue file shall be prepared by the enterprise by June 30th of the following year.

8.4 Country-by-country reporting

The Chinese resident enterprises that are the ultimate holding company of a multinational group with consolidated revenue over 5.5 billion CNY or that have been nominated as the CbC reporting entity by their group are required to prepare a CbC report.

8.5 Related party transactions forms

Enterprises with overseas related party transactions shall submit the related party transactions (RPT) forms together with the annual settlement of the CIT by May 31st of the following year. Through the RPT forms, the enterprise shall disclose the following information:

- related party relationships;
- transactions related to tangible, intangible, and financial assets;
- financial transactions;
- service transactions;
- equity investment;
- cost sharing agreements;
- overseas related party information
- outbound payments;
- financial information analysis; and
- CbC reporting, if required.

8.6 Transfer pricing methods

Chinese tax authorities accept most of the transfer pricing methods recommended by the OECD guidelines when evaluating the arm's length of related party transactions:

- comparable uncontrolled price method (CUPM), in which the arm's length of a related party transaction is assessed based on the prices of similar transactions between non-related parties;

- resale price method (RPM), based on the resale price and the implied gross profit achieved in a non-related party transaction.
- cost-plus method (CPM), based on reasonable costs and the mark-up derived from non-related party transactions;
- transactional net margin method (TNMM), that determines the net margin of a related party transaction based on certain profit level indicators derived from non-related party transactions;
- profit split method (PSM), based on the allocation of the aggregate profit of a related party transaction among the parties according to the contribution of each party; and
- other methods that are in compliance with the arm's length principle.

8.7 Transfer pricing audit

Related parties' transactions are under great scrutiny of the Chinese tax authorities, which retain the power to determine special adjustments when, after the review of target enterprises and transactions.

Audited enterprises can make a self-adjustment on a voluntary basis and pay the underpaid tax upon the receipt of the notification from tax authorities. A self-adjustment, however, does not limit the power of tax authorities to further make adjustments to the taxable profit of the audited enterprises.

Transfer pricing audits mainly target enterprises with the following characteristics:

- enterprises with a significant amount or many types of related party transactions;
- enterprises with continuous losses, or with low and very fluctuating profitability;
- enterprises with a profit level lower than those in the same industry;
- enterprises whose profit level is not in line with the functions performed, the risks assumed, and the assets employed;
- enterprises whose shared benefits do not match with their allocated costs;
- enterprises with transactions with low tax jurisdictions;
- enterprises failing to prepare the related party transaction reporting forms or the contemporaneous documentation;
- enterprises with thin capitalization issues due to exceeding related party debt;
- enterprises controlled by Chinese tax residents that are established in jurisdictions with an effective tax rate lower than 12.5%;

- enterprises with tax planning arrangements lacking reasonable business purposes.

8.8 Advance pricing agreements

An advance pricing agreement (APA) refers to an agreement that an enterprise enters in advance with the competent tax authorities in respect of the transfer pricing methods to be applied on its future related-party transactions in accordance with the arm's length principle.

An APA can be negotiated by the taxpayer with one tax authority (unilateral APA), or two or more tax authorities in different tax jurisdictions (bilateral or multilateral APA). In a unilateral APA, a taxpayer can negotiate the pricing methods for its related-party transactions within one jurisdiction, but such methods might not be accepted by tax authorities in other jurisdictions, leading to potential double taxation risks that can be reduced or removed by a multilateral APA.

In accordance with the Announcement of the State Administration of Taxation on Improving Matters relating to the Administration of Advance Pricing Agreements (*SAT Announcement [2016] No. 64*), the negotiation of an APA with Chinese tax authorities requires several steps, including a pre-application meeting between taxpayer and tax authority, a letter of intent with relevant documentation and information from the taxpayer, the analysis and evaluation by the tax authorities, the formal application, the negotiation and signing, and the implementation and monitoring.

An APA can cover related-party transactions for three to five consecutive years starting from the year during which the enterprise submits the formal application and represents an effective approach to deal with transfer pricing issues and disputes, and to negotiate in advance an acceptable transfer pricing system with the competent tax authorities.

9. International tax treaties

Since the opening to foreign investments and the increasing volume of cross-border transactions, China negotiated and entered many tax treaties with foreign tax jurisdictions.

According to the State Administration of Taxation, as of the end of 2021, China signed a double tax agreement (DTA) with 107 countries, and three tax arrangements with the special administrative regions of Macao and Hong Kong, and with Taiwan province. In addition, China has signed a Tax Information Exchange Agreement (TIEA) with ten jurisdictions, including the Bahamas, British Virgin Islands, Isle of Man, Guernsey, Jersey, Bermuda, Argentina, Cayman Islands, San Marino, and Liechtenstein.

The DTAs concluded by China are generally negotiated based on the OECD and UN model and determine the allocation of the taxation rights between China and the jurisdiction with respect to taxes on income and capital, in order to avoid the double taxation and to prevent fiscal evasion.

9.1 General framework

A State can generally impose taxes if there is a personal or objective nexus between the taxpayer and the State. Personal nexus generally refers to factors that connect a taxpayer with the State, such as domicile, residence, nationality (for individuals), or place of incorporation or effective management (for enterprises and other legal entities). Objective nexus instead refers to factors that connect a transaction carried out by the taxpayer with the State (for instance the transaction is carried in the territory of such State).

According to Chinese domestic laws, taxpayers with a strong personal nexus with China are required to pay taxes in China on their worldwide income, while taxpayers without a personal nexus shall pay taxes in China based on an objective nexus.

Taxpayers with a nexus with two States might be subject to double taxation for the same income, that can be avoided by the application of the DTAs.

9.2 Taxpayers and taxes covered

The provisions of the DTAs stipulates the tax treatment of income generated by individuals, enterprises, organizations, and other entities that are resident in one contracting State from activities and operations carried out in the other contracting State. The taxes covered by the treaty are generally the income tax that is applied to

individuals (for China, the IIT), and enterprises/organizations/other entities (for China, the CIT).

9.3 Definition of residence

The benefits granted by DTAs can be enjoyed only by taxpayers that can be qualified as a resident of at least one of the two contracting States. For the purpose of the treaty, the term resident of a contracting state means a person that, according to the laws of such contracting State, is liable to tax by reason of his domicile, residence, place of incorporation or effective management, or any other criteria.

For China domestic laws, an individual is a resident in China if he/she is domiciled in China or has resided in China for 183 days or more during the tax year. An enterprise is resident in China if it is incorporated in China or is effectively managed and controlled in China.

Dual residence

For individuals that can be considered as residents in both contracting States according to the domestic laws of the contracting States, his or her status shall be assessed according to the following tie-breaker rules:

1. the individual shall be deemed a resident of the State in which he/she has a permanent home available to him/her;
2. If he/she has a permanent home in both contracting States, the individual shall be deemed to be a resident of the State with which his/her personal and economic relations are closer (center of vital interest);
3. If the State in which the individual has the center of vital interest, he/she shall be deemed a resident of the State in which he/she has a habitual abode;
4. If the individual has an habitual abode in both contracting States or in neither of them, he/she shall be deemed a resident of the State of which he/she is a national;
5. If the individual is a national of both States or of neither of them, the competent tax authorities of the contracting States shall settle the issue by mutual agreement.

For enterprises that can be considered as residents in both contracting States (for instance due to the incorporation in one contracting State, and place of effective management in the other contracting State), the residence status shall be determined by mutual agreement by the competent tax authorities of the contracting States.

9.4 Income covered

DTAs cover a comprehensive list of income:

- income from immovable property, including rental and lease;
- business profits derived from services and other business operations;
- income from international transportation activities;
- dividends, interest, royalties, and capital gains;
- income from personal services provided by individuals;
- employment income;
- director's fees;
- income derived by artistes and sportsmen;
- pensions;
- income for government services;
- income derived by students;
- income derived by teachers and researchers; and
- other income.

Business profits

The profit that an enterprise resident of a contracting State derives in the other contracting State can be taxed in the other contracting State only if the enterprise carries business in the other contracting State through a permanent establishment (PE) situated therein. In such a case, the profit can be taxed in the other contracting State for the part that is attributable to the PE.

PE is a concept used in DTAs to determine the right of a contracting State to tax the income derived by an enterprise resident of the other contracting State. According to the relevant provisions in the DTA, when an enterprise resident of a contracting State generates business profit in the other contracting State, the other contracting State has the right to tax the profit if this is attributable to a permanent establishment of the enterprise in that other contracting State.

The term PE means a fixed place of business through which the business of an enterprise is wholly or partly carried on. The PE includes a place of management, a branch, an office, a factory, a workshop, and other places of extraction of natural resources (such as mine, oil and gas well, a quarry etc....).

In addition, the term PE encompasses also building, construction, assembly, or installation project or supervisory activities in connection with such project, conducted

by the enterprise for a prescribed period of time (6, 12, 18 or even 24 months according to the DTA).

A PE is also constituted in case of provision of services, including consultancy services, by the enterprise through employees or other personnel engaged for the purpose for a prescribed period of time (generally 183 days within any 12-month period).

Due to the development of the digital economy and e-commerce, the traditional definition of PE included in the DTA, which requires a physical presence and employees' activity in the other jurisdiction, is obsolete. A virtual PE or a significant digital presence might be considered when assessing a PE.

Income from immovable property

Income derived by a taxpayer resident of a contracting State from immovable property situated in the other contracting State can be generally taxed in the other contracting State.

Income from international transport

DTAs generally provide that Income generated from the operation of ships or aircrafts in international traffic by an enterprise resident of a contracting State shall be taxed only that contracting State.

Dividends, interest, and royalties

Dividends, interest, and royalties received by a taxpayer resident of a contracting State and paid by a resident of the other contracting State can be generally taxed in the other contracting State on a withholding basis. The general withholding tax rate applied by China is 10%, but DTAs may include some reduced rates or exemptions. It shall be noted that the reduced rates provided by DTAs can be enjoyed only by beneficial owners of the dividends, interest, and royalties.

Capital gains

Gains derived by a taxpayer resident in a contracting State from the transfer of immovable property, equity shares, and assets forming part of a PE situated in the other contracting State can be taxed in the other contracting State. The general withholding tax rate applied by China is 10%.

In relation to the equity transfer, certain DTAs stipulates a withholding requirement in the other contracting State in case the resident taxpayer in the first contracting State transfers equity participation of at least 25% in an enterprise resident in the other contracting State.

Income from personal services

Income derived by a taxpayer resident in a contracting State from the provision of personal services in the other contracting State can be taxed in the other contracting State in the following two circumstances:

- the taxpayer has a fixed base available to him in the other contracting State that is used to perform the services; and
- the taxpayer stays in the other contracting State for a prescribed period of time (generally 183 days in any 12-month period).

Employment income

Income derived by a taxpayer resident in a contracting State from his/her employment in the other contracting State can be taxed in the other contracting State, except in case the below three requirements are all satisfied:

1. the taxpayer stays in the other contracting State for less than the prescribed period of time (generally 183 days in any 12-month period);
2. the remuneration is paid by, or on behalf of, an employer that is not resident in the other contracting State; and
3. the remuneration is not borne by a PE which the employer has in the other contracting State.

Director's fees

The director's fees and similar payments received by a taxpayer resident of a contracting State in his/her capacity as a director of an enterprise resident of the other contracting State may be taxed in the other contracting State.

Income from artists and sportsmen

Resident individuals of a contracting State deriving income from artistic and sport performances in the other contracting State are generally taxed in the other contracting State unless such activities are performed under government – sponsored cultural exchange programs.

Pension

Pension and similar payments received by an individual resident of a contracting State from a past employment in the other contracting State shall be taxed in the contracting State in which the recipient is resident. However, many DTAs envisage also that when the pension and similar payments are made by a government, political subdivision, or

a local authority of a contracting State under a public welfare scheme, the income is taxed only in that contracting State.

Income for government service

Employment income received by an individual resident of a contracting State from the government of the other contracting State for services rendered to the government is taxable in the other contracting State, unless the services are rendered in the contracting State in which the individual is resident.

Income received by students

China's DTAs generally provides that students who are or were resident of the other contracting State immediately before visiting a contracting State for the purpose of education, shall be exempted from taxation in the contracting State. Each DTA stipulates the extent of the exemption, the amount and the time limits.

Income received by teachers and researchers

Individuals who are or were immediately before visiting a contracting State a resident of the other contracting State, and who are present in the first-mentioned contracting State solely for the purpose of teaching, giving lectures, or engaging in research in institutions recognized by the government of that contracting State, can be exempted from tax in that contracting State for the income received for the above-mentioned activities. The extent of the exemption varies according to each DTA.

9.5 Beneficial owner

In order to enjoy the benefits provided by DTAs, the recipient of the income shall be the beneficiary owner, who is the entity that has ownership and control over the income and the rights and property from which the income is derived. A comprehensive analysis shall be carried out when assessing the beneficial owner status of the recipient, and the following factors might have a negative impact in this assessment:

- the recipient has an obligation to pay 50% or more of the income to a resident of a third State, within 12 months after the income is received;
- the business activities carried out by the recipient of the income do not qualify as substantive business activities, including substantive manufacturing, trading, management activities. This factor shall be assessed taking into consideration the functions performed and the risks assumed by the recipient;

- the recipient is exempt from tax on the income received or the income is not taxable in the residence jurisdiction or, if the income is taxable, the actual tax rate is extremely low;
- in case of loan agreement under which interest arises and paid, the recipient has concluded another loan agreement with a third party containing similar terms, such as the amount, interest rate, signing date; and
- in case of license or transfer agreement for use rights such as copyrights, patent, technology, etc.... for which royalties are derived and paid, there are other agreements for use rights or ownership in relation to copyright, patent, technology, etc.... between the recipient and a third party.

9.6 Elimination of double taxation

Two methods are generally stipulated to avoid double taxation:

- tax credit method, according to which the taxpayer resident of a contracting State shall first determine the tax payable under domestic law' provision about the resident's worldwide income, and then reduce this amount of tax payable by crediting the foreign tax credit (FTC) according to the limits provided by the relevant regulations.
- tax exemption method, based on which the taxpayer resident of a contracting State can determine the taxable income in the residence State without including the income derived in the other contracting State.

10. Corporate Structures

There are two main forms of legal entity under the Company Law of the People's Republic of China:

- Limited liability companies (LLC), which are private companies, and
- Companies limited by shares (CLS), which may be either public or private companies.

Limited Liability

The number of shareholders can be no more than fifty.

There is no minimum registered capital requirement, except for certain industries such as banking and real estate.

There is a two-tier board structure (board of directors and board of supervisors).

Limited by Shares

The number of shareholders must be a minimum of two and a maximum of two hundred, of whom the majority of the shareholders must be resident in China.

There are two sub-classifications of a CLS:

- establishment by promotion: the shareholder must subscribe all shares, and must not offer additional shares to others before payment in full of all subscribed shares;
- establishment by share offer: shareholders must subscribe not less than 35% of all shares.

There is no minimum registered capital requirement, except for certain industries such as banking and real estate.

10.1 Legal framework

The main legislative framework includes:

- The Foreign Investment Law of the PRC, which applies to all foreign-funded enterprises, which became effective on 1 January 2020.
- The Company Law.
- The Securities Law of the PRC.

Various regulations, measures and guiding opinions, including but not limited to the Code of Corporate Governance of Listed Companies, issued by the Securities Regulatory Committee of the PRC (CSRC) and other authorities, which apply to listed companies.

Regulatory and/or enforcement bodies

The Ministry of Commerce (MOFCOM), the State Administration for Market Regulation, and other local enforcement departments in respect of tax, customs and labour also have authority over companies in China in their respective jurisdictions.

10.2 Corporate Governance

The Code of Corporate Governance for Listed Companies was released in 2018 and is the main corporate governance code in China.

The Code advises listed companies to adopt corporate social responsibility policies, for example, to practise green development concepts, protect the rights and interests of their employees or workers, actively participate in public welfare undertakings and fulfil social responsibilities.

The Code obligates that, as part of corporate governance, listed companies should protect the rights and interests of small and medium size shareholders, especially the right to payment of dividends.

Corporate social responsibility and reporting

As introduced in Article 5 of the Company Law, all companies must practise social responsibility, furthermore, there are additional laws which cover corporate social responsibility (CSR) obligations on environmental protection, employee benefits, product quality, and that provide for penalties for violations of these obligations.

Nowadays, listed companies must report and publicise their compliance with ESG practices in accordance with relevant laws, regulations, and requirements of competent authorities.

Board of Directors and Supervisor(s)

Under the PRC law for the operational management of a company, an executive director or a board of directors and a supervisor or a board of three supervisors must be appointed. The board of supervisors or supervisor is responsible for the supervision of the management of the board of directors/executive director, such as:

- Appointing auditors to investigate the company's accounts.
- Requiring the directors to rectify acts that are not in the interest of the company.
- Proposing or calling and convening interim meetings of the shareholders when the board of directors are inactive.

Under the Company Law, the shareholders' meeting is the supreme decision-making body of a company. The following also participate in the management: a general manager if appointed by the board of directors, or the executive director.

In addition, there is a statutory office under PRC law of legal representative, who has authority to represent the company. This office can only be held by the chairman of the board of directors, the executive director, or the general manager of a company.

Number of directors

For LLC:

The board of directors will comprise of between three to thirteen board members (or an executive director).

The board of supervisors will comprise at least three members (or one supervisor).

For CLS:

The board of directors will comprise of between five to nineteen members.

The board of supervisors will comprise at least three members, of which one supervisor must be appointed by the employees of the company.

Restrictions on the nomination for Director

The Company Law provides that any individual in any of the following circumstances cannot be a director of a company:

- They have no civil capacity or limited civil capacity.
- They have been sentenced to criminal punishments for corruption, bribery, embezzlement of property, misappropriation of property, or disrupting the order of the socialist market economy, and less than five years have elapsed since the punishments were fully spent; or They have been deprived of political rights due to any criminal offence, and less than five years have elapsed since the punishment was fully spent.
- They have served as a director, factory manager or manager of a company or enterprise that is bankrupt and liquidated and is personally liable for the bankruptcy of the company or enterprise, and less than three years have

elapsed since the bankruptcy liquidation of the company or enterprise completed.

- They have served as the legal representative of a company or enterprise that has its business licence revoked and is ordered to close down due to violations of the law, and is personally liable for such punishment, and less than three years have elapsed since the date of revocation of the business license of the company or enterprise.
- They have a relatively large number of overdue debts.

Limited liability companies and companies limited by shares.

An individual is allowed to hold offices as both a member of senior management and a director of a company at the same time.

Listed companies.

The ratio of directors holding office as senior management personnel must not exceed one-half.

10.3 Appointment and Removal of Directors

The Shareholders appoint, elect, and remove directors, and during the term of appointment directors can be removed by shareholders at any time. The term of a director's appointment is stipulated by the articles of association of the company, but each term must not exceed three years.

The powers of the board of directors and the board of shareholders are separated. Article 46 of the Company Law provides for the basic powers of the board of directors, although the company's articles may further regulate this area. The powers of the directors can be restricted by the company in various ways, such as by articles of association and/or internal rules or policies of the company as well as the employment contracts of the directors.

Duties of the Directors

Chapter 6 of the Company Law sets out the general duties that directors owe to the company and its shareholders. Directors owe duties of loyalty and diligence to the company. The following acts breach these duties:

- Misappropriating the company's funds.

- Without the consent of the shareholders or the resolution of the board of directors, or in violation of the provisions under the articles of association, providing loans and/or guarantee to others by using the company's property.
- In violation of the articles or without the consent of the shareholders, entering into a contract or transaction with the company itself.
- Without the consent of the shareholders or the resolution of the board of directors:
 - taking advantage of their powers;
 - seeking business opportunities which belong to the company for themselves or others; or competing or helping others to compete with the company;
 - Accepting commission for the transactions between the company and others in private;
 - Unauthorised disclosure of the company's confidential information;
 - Other acts that are in breach of the duty of loyalty owed to the company.

Directors Duties during liquidation

On the commencement of liquidation proceedings, the court will appoint an administrator to take over the management of the company, including managing and disposing of the assets of the company. Therefore, although the law does not expressly provide that all directors' powers cease at the same time, such powers will be restricted to some extent.

10.4 Liabilities of directors

While there are no express liabilities applicable to directors, under PRC laws, the legal representative and the "persons who are directly responsible or in charge" of the company may be subject to administration or criminal penalties for the company's violations of the environment, health and safety laws and regulations, including fines, administrative detention (up to 15 days) and/or imprisonment.

While there is no express liability applicable to the legal representative and the "persons who are directly responsible or in charge" of the company for violation under the anti-trust laws in PRC, in the event this violation amounts to criminal offences, directors can be held personally liable for offences for IP infringements, commercial bribery and theft of trade secrets.

Legal representatives and persons “who are directly responsible or in charge” may be subject to administrative or criminal penalties for the company breaching other laws, in the same way as for breach of environment and health and safety laws.

10.5 Shareholders

Limited liability company (LLC)

An annual shareholders’ meeting is not required. Written resolutions of shareholders are permitted, and the articles can govern the frequency and procedures of the shareholders’ meeting.

Companies limited by shares (CLS)

The Company Law requires an annual meeting of the shareholders. However, there is no statutory requirement as to when such an annual meeting must be held or what issues must be discussed or approved during such annual meetings.

Notice, Quorum and Voting

Shareholders representing 10% or more of the total voting rights can request a meeting. If both the board of directors and the board of supervisors fail to call and hold the meeting, the shareholders can call and hold meetings by themselves.

For an LLC:

The required notice period for holding meetings is 15 days’ notice, or as otherwise stated in the articles of association.

No statutory quorum is required.

Regarding voting rights, shareholders must exercise their rights to vote according to the proportion of contributions, unless otherwise provided in the articles.

A periodic meeting must be held in accordance with the articles.

An interim meeting must be held when requested by:

- the shareholders representing one-tenth of the total voting rights;
- one-third of the directors or the executive director; or
- the board of supervisors or supervisor(s).

Voting requirements for passing resolutions:

- written resolutions agreed by all shareholders are permitted;

- ordinary resolutions must be passed in accordance with the articles;
- resolutions on important matters must be passed by two-thirds of the total voting rights.

For a CLS:

The required notice period for holding meetings is 20-days' notice for annual meetings, and 15-days' notice for interim meetings.

No statutory quorum is required.

Voting rights are one share for one vote.

The annual meeting must be held once a year.

An interim meeting must be held within two months if any of the following occurs:

- the number of directors is less than the statutory requirement or two-thirds of the number stated in the articles;
- unsettled losses reach one-third of the paid-in share capital;
- a meeting is requested by the shareholder or shareholders jointly holding more than 10% of the shares;
- a meeting is called by the board of directors as they deem necessary;
- a meeting is suggested by the board of supervisors;
- other situations stated in the articles.

Voting requirements for passing resolutions:

- ordinary resolutions must be passed by those holding the majority of voting rights present at the meeting; and
- resolutions on important matters must be passed by two-thirds of the total voting rights present at the meeting.

10.6 Specific Voting Ratio

Limited liability company (LLC)

The following matters must be passed by two-thirds of the total voting rights:

- Amendment to the company's articles.
- Increase or decrease of registered capital.
- Merger, split-up, dissolution or change of the company form.

Company limited by shares (CLS)

The matters specified for LLCs must be passed by two-thirds of the voting rights present at the meeting.

The same rules applying to the CLS are applicable. In addition, the purchase or sales of any important asset or providing guarantees that exceed 30% of the company's total assets within a year, must be authorised and approved by the shareholders representing two-thirds of the voting rights present at the meeting. Shareholders representing 10% or more of the total voting rights can request a meeting. If both the board of directors and the board of supervisors fail to call and hold the meeting, the shareholders can call and hold meetings by themselves.

Appendix I: Individual Income Tax of the PRC

Individual Income Tax Law of the People's Republic of China (Revised in 2018)

Order of the President of the People's Republic of China No.9

Date: August 31, 2018

- ✓ Adopted on September 10, 1980;
- ✓ amended for the 1st time on October 31, 1993;
- ✓ amended for the 2nd time on August 30, 1999;
- ✓ amended for the 3rd time on October 27, 2005;
- ✓ amended for the 4th time on June 29, 2007;
- ✓ amended for the 5th time on December 29, 2007;
- ✓ amended for the 6th time on June 30, 2011;
- ✓ amended for the 7th time on August 31, 2018.

Article 1 Individuals who have a domicile in China or individuals who do not have a domicile in China but have resided in China for an aggregate of 183 days or more within a single tax year shall be deemed as resident individuals. Income derived by resident individuals from inside and outside China shall be subject to individual income tax pursuant to the provisions of this Law.

Individuals who do not have a domicile in China and have not resided in China or individuals who do not have a domicile in China but have resided in China for less than 183 days in aggregate within a tax year shall be deemed as non-resident individuals. Income derived by non-resident individuals from China shall be subject to individual income tax under this Law.

A tax year shall start from January 1 and end on December 31 of a calendar year.

Article 2 The following income of an individual shall be subject to individual income tax:

1. Income from wages and salaries;
2. Income from remuneration for personal services;
3. Income from author's remuneration;
4. Income from royalties;
5. Income from business operation;
6. Income from interest, dividends and bonuses;
7. Income from lease of property;
8. Income from transfer of property; and
9. Incidental income.

For income listed in items 1 to 4 of the preceding paragraph (hereinafter referred to as the "*comprehensive income*"), individual income tax shall be computed in a consolidated manner based on tax year for resident individuals; and shall be computed on a monthly basis or based on each income item under each category for non-resident individuals. For income listed in items 5 to 9 of the preceding paragraph obtained by taxpayers, individual income tax shall be computed separately under this Law.

Article 3 Individual income tax rates:

1. For comprehensive income, progressive tax rates ranging from 3% to 45% shall apply (*see Table A*);
2. For income from business operation, progressive tax rates ranging from 5% to 35% shall apply (*see Table B*);
3. For income from interest, dividends and bonuses, income from lease of property, income from transfer of property and incidental income, a proportional tax rate of 20% shall apply.

Article 4 The following categories of individual income shall be exempted from individual income tax:

1. Awards for achievements in science, education, technology, culture, public health, sports environmental protection, etc. granted by provincial people's governments, ministries and commissions under the State Council, units of the Chinese People's Liberation Army at or above the corps level, as well as foreign organizations and international organizations;
2. Income from interest on national debt obligations and other financial debentures issued by the State;
3. Subsidies and allowances given under uniform state regulations;
4. Welfare benefits, disability and death compensation, and relief payments;
5. Insurance indemnities;
6. Military severance pay, demobilization pay and decommissioning pay received by members of the armed forces;
7. Settling-in allowance, severance pay, basic pension or retirement pay, and full-pay retirement pension and living allowances (for qualified veteran cadres) given to public servants and workers under uniform state regulations;
8. Income of diplomatic representatives, consular officers and other personnel of foreign embassies and consulates in China, which is exempted from tax under relevant laws;

9. Tax-exempt income stipulated in international conventions to which the Chinese Government has acceded or in agreements which the Chinese Government has signed; and
10. Other tax-exempt income as stipulated by the State Council.

The tax-exemption provisions as mentioned in Item 10 of the preceding paragraph shall be filed by the State Council with the Standing Committee of the National People's Congress for record.

Article 5 Individual income tax may be reduced in any of the following circumstances, and the specific range and duration of reduction shall be subject to the decision of the people's government at the level of a province, autonomous region or municipality directly under the Central Government and filed with the standing committee of the people's congress at the same level for record:

1. If income is received by disabled persons, unsupported elderly persons, or dependents of persons recognized as martyrs; or
2. If income is received by taxpayers suffering heavy losses due to a natural disaster.

The State Council may stipulate other circumstances for tax reduction and shall file a record with the Standing Committee of the National People's Congress.

Article 6 The amount of taxable income shall be computed as follows:

1. For comprehensive income of resident individuals, the amount of taxable income shall be the balance after deduction of CNY60,000 for expenses, as well as any special deductions, special additional deductions and other deductions specified under the law from the income amount of each tax year;
2. For income from wages and salaries of non-resident individuals, the amount of taxable income shall be the balance after deduction of CNY5,000 for expenses from the monthly income; for income from remuneration for personal services, income from author's remuneration and income from royalties, the amount of taxable income shall be the amount of each income item;
3. For income from business operation, the amount of taxable income shall be the balance after deduction of costs, expenses and losses from the total income amount of each tax year.
4. For income from lease of property, the amount of taxable income shall be the balance after deduction of CNY800 for expenses from each income item which is not more than CNY4,000, or be the balance after deduction of 20% for expenses from each income item which is more than CNY4,000;

5. For income from transfer of property, the amount of taxable income shall be the balance after deduction of the original value of the property and any reasonable expenses from the income amount from the transfer of property;
6. For income from interest, dividends and bonuses, and incidental income, the amount of taxable income shall be the amount of each income item.

The income amount for remuneration for personal services, author's remuneration and royalties shall be the balance after deduction of 20% for expenses from the income. The income amount of author's remuneration shall be reduced and computed at 70%.

The portion of donations by an individual of his/her income to education, poverty alleviation or other public welfare and charitable undertakings which does not exceed 30% of his/her declared taxable income amount may be deducted from his/her taxable income amount; where the full amount of donations to public welfare and charitable undertakings are tax deductible under stipulations of the State Council, such stipulations shall prevail.

Special deductions stated in the item 1 of the first paragraph of this Article shall include basic pension insurance, basic medical insurance, unemployment insurance and other social security contributions, as well as housing provident funds etc. contributed by resident individuals in accordance with the scope and standards stipulated by the State; special additional deductions shall include expenses for children's education, continuing education, medical treatment for major illness, home loan interest or house rentals, support for elderly, etc., the specific scope, standards and implementation steps of which shall be determined by the State Council and filed with the Standing Committee of the National People's Congress for record.

Article 7 For income of a resident individual derived from outside China, the amount of individual income tax paid overseas may be offset against his/her tax payable amount, but the offset amount shall not exceed the tax payable amount as computed under this Law for such taxpayer's income derived from outside China.

Article 8 Under any of the following circumstances, tax authorities shall have the right to make tax adjustments based on a reasonable method:

1. If a business dealing between an individual and his/her related party does not comply with the arm's length principle, and the tax payable amount of the individual or his/her related party is reduced as a result, when there are no justifiable reasons;
2. If an enterprise established in a country (region) with significantly lower tax burden which is controlled by a resident individual or jointly controlled by a

resident individual and a resident enterprise, does not distribute or reduces distribution of profits which are attributable to the resident individual, when there are no reasonable business needs; or

3. If an individual makes other arrangements without reasonable business purposes and obtains improper tax gains.

Where tax authorities need to collect any underpaid tax after making tax adjustments pursuant to the preceding paragraph, such underpaid tax shall be collected plus interest thereon pursuant to the law.

Article 9 Taxpayers for individual income tax shall be the income earners and withholding agents shall be the entities or individuals that pay income.

Where a taxpayer has a Chinese citizen identity number, the Chinese citizen identity number shall be his/her taxpayer identification number; otherwise, they shall be allocated a taxpayer identification number by tax authorities. A taxpayer shall provide his/her taxpayer identification number to the withholding agent for withholding tax.

Article 10 Under any of the following circumstances, a taxpayer shall make tax declaration pursuant to the law:

1. If the taxpayer obtains consolidated income and needs to process final settlement and payment of tax;
2. If the taxpayer obtains taxable income but there is no withholding agent;
3. If the taxpayer obtains taxable income but the withholding agent does not withhold tax;
4. If the taxpayer obtains overseas income;
5. If the taxpayer is to deregister his/her household registration in China for emigrating overseas;
6. If a non-resident derives income from wages and salaries from two or more sources in China; or
7. Any other circumstances stipulated by the State Council.

Withholding agents shall make the filing of the withholding of the full amount of tax payable for all individuals for whom they act as withholding agents in accordance with state regulations and provide taxpayers with their individual income and tax withheld information.

Article 11 For comprehensive income obtained by resident individuals, individual income tax shall be computed on a yearly basis; where there is a withholding agent, the withholding agent shall withhold and prepay tax on a monthly basis or based on

each income item; those who need to process final settlement and payment of tax shall do so between March 1 and June 30 of the following year after obtaining the income. The method for the withholding and prepayment of tax shall be formulated by the tax department under the State Council.

Where a resident individual provides information on special additional deductions to the withholding agent, the withholding agent shall make deductions pursuant to regulations when withholding and prepaying tax on a monthly basis, and shall not refuse to do so.

Tax payable on income from wages and salaries, remuneration for personal services, author's remuneration, and royalties obtained by a non-resident individuals shall be withheld and paid by the withholding agent, if any, on a monthly basis or based on each income item, and is not subject to final settlement and payment.

Article 12 Taxpayers obtaining income from business operation shall compute individual income tax on a yearly basis, file tax returns with tax authorities within 15 days after the end of each month or quarter, make prepayment of tax; and process final settlement and payment of tax before March 31 of the following year after obtaining the income.

Taxpayers obtaining income from interest, dividends and bonuses, income from lease of property, income from transfer of property, and incidental income shall compute individual income tax on a monthly basis or based on each income item; where there is a withholding agent, the withholding agent shall withhold and pay tax on a monthly basis or based on each income item.

Article 13 Where there is no withholding agent for the taxable income obtained by a taxpayer, the taxpayer shall file tax returns with tax authorities within the first 15 days of the following month after obtaining the income and pay tax.

Where the withholding agent does not withhold and pay tax for the taxable income obtained by a taxpayer, the taxpayer shall pay tax before June 30 of the following year after obtaining the income; where the taxpayer is notified by tax authorities to pay tax by a specified deadline, the taxpayer shall pay tax before such deadline.

A resident individual shall declare and pay tax on his/her income derived from outside China between March 1 and June 30 of the following year after obtaining the income.

A non-resident individual shall declare and pay tax on his/her income from wages and salaries derived from two or more sources in China within the first 15 days of the following month after obtaining the income.

A taxpayer to deregister his/her household registration in China for emigrating overseas shall do so after he/she has settled his/her tax payable in China.

Article 14 Tax withheld by a withholding agent on a monthly basis or based on each income item shall be turned over to the treasury within the first 15 days of the next month, and the declaration form for withholding of individual income tax shall be submitted to tax authorities.

Where a taxpayer processes final settlement and payment of tax or a withholding agent processes final settlement and payment of tax for a taxpayer, tax authorities shall process any tax refund approved upon review pursuant to the applicable provisions for treasury management.

Article 15 Public security authorities, the People's Bank of China, financial regulators, and other related authorities shall assist tax authorities in verifying taxpayers' identities and financial account information. Education, health, medical insurance, civil affairs, human resources and social security, housing and urban-rural development, and public security authorities, the People's Bank of China, financial regulators and other related authorities shall provide tax authorities with information on special additional deductions for taxpayers, such as children's education, continuing education, medical treatment for major illness, home loan interest or house rentals, support for elderly etc.

For transfer of real estate by individuals, tax authorities shall verify the payable individual income tax based on the real estate registration information and other relevant information, and real estate registration authorities shall verify the tax payment certificate for individual income tax relating to transfer of the real estate concerned when processing transfer registration. Where an individual makes a change of registration for transfer of equities, the registration authorities for market entities shall verify the tax payment certificate for individual income tax relating to the equity transaction concerned.

The relevant authorities shall include the information on compliance with this Law by taxpayers and withholding agents in the credit information system, and carry out joint actions of incentives or sanctions accordingly.

Article 16 All categories of income shall be computed in terms of RMB. Income in a foreign currency shall be taxed on the equivalent amount converted into Renminbi based on the Renminbi central parity rate against the foreign currency.

Article 17 A service commission equivalent to 2% of the amount of tax withheld shall be paid to withholding agents.

Article 18 The levying, reduction or cessation of levying of individual income tax on income from interest upon saving deposits and the specific measures therefor shall be stipulated by the State Council and filed with the Standing Committee of the National People's Congress for record.

Article 19 The legal liability of taxpayers, withholding agents, and tax authorities and their officers for violation of the provisions of this Law shall be investigated and pursued in accordance with the Law of the People's Republic of China on the Administration of Tax Collection and other applicable laws and regulations.

Article 20 The administration of collection of individual income tax shall be governed by the provisions of this Law and the Law of the People's Republic of China on the Administration of Tax Collection.

Article 21 The State Council shall formulate regulations for implementation of this Law pursuant to this Law.

Article 22 This Law shall enter into force as of the day of its promulgation.

Table A: Individual Income Tax Rates (Applicable to comprehensive income) as below:

No.	Annual Taxable Income	Tax Rate (%)
1	if not exceeding CNY36,000	3
2	for the part exceeding CNY36,000 but no more than CNY144,000	10
3	for the part exceeding CNY144,000 but no more than CNY300,000	20
4	for the part exceeding CNY300,000 but no more than CNY420,000	25
5	for the part exceeding CNY420,000 but no more than CNY660,000	30
6	for the part exceeding CNY660,000 but no more than CNY960,000	35
7	for the part exceeding CNY960,000	45

Note 1: The “Annual Taxable Income” as mentioned in this table refers to the remainder after deducting the CNY60,000 quota, special deductions, special extra deductions and other deductions under the law from the annual general income received by a resident individual in a single tax year, in accordance with the provisions of Article VI hereof.

Note 2: For wage and salary income, labor remuneration, author’s remuneration and royalties received by a non-resident individual, the payable tax shall be calculated according to the monthly income converted from the annual income provided in this table.)

Table B: Individual Income Tax Rates (Applicable to Business Income) as below:

No.	Annual Taxable Income	Tax Rate (%)
1	if not exceeding CNY30,000	5
2	for the part exceeding CNY30,000 but no more than CNY90,000	10
3	for the part exceeding CNY90,000 but no more than CNY300,000	20
4	for the part exceeding CNY300,000 but no more than CNY500,000	30
5	for the part exceeding CNY500,000	35

Note: The “Annual Taxable Income” as mentioned in this Table refers to the remainder after deducting the costs, expenses and losses from the gross annual income received in a single tax year, in accordance with the provisions of Article VI hereof.

Appendix II: Company Income Tax of the PRC

Company Income Tax Law of the People's Republic of China (Revised in 2018)

Order of the President of the People's Republic of China No.23

Date: December 29, 2018

- ✓ Adopted on March 16, 2007;
- ✓ amended for the 1st time on February 24, 2017;
- ✓ amended for the 2nd time on December 29, 2018.

Chapter I General Provisions

Article 1 Company income tax payers shall be enterprises within the People's Republic of China and other organizations that obtain income within the People's Republic of China (hereinafter referred to as "*Enterprises*") and shall pay company income tax in accordance with the provisions of this Law.

This Law shall not apply to wholly individually owned enterprises and partnership enterprises.

Article 2 Enterprises are divided into resident enterprises and non-resident enterprises.

For the purposes of this Law, the term "*resident enterprises*" shall refer to Enterprises that are set up in China in accordance with the law, or that are set up in accordance with the law of the foreign country (region) whose actual administration institution is in China.

For the purposes of this Law, the term "*non-resident enterprises*" shall refer to Enterprises that are set up in accordance with the law of the foreign country (region) whose actual administration institution is outside China but have set up institutions or establishments in China or, without institutions or establishments set up in China, have income originating from China.

Article 3 Resident enterprises shall pay enterprise income tax in relation to their income originating both within and outside China.

Non-resident enterprises that have set up institutions or establishments in China shall pay enterprise income tax in relation to income originating from China obtained by the set up institutions or establishments, and income occurring outside China but having an actual connection with the set-up institutions or establishments.

Non-resident enterprises that have not set up institutions or establishments in China, or have set up institutions or establishments but the income obtained by the said enterprises has no actual connection with the set-up institutions or establishments, shall pay enterprise income tax in relation to their income originating from China.

Article 4 The rate of enterprise income tax shall be 25%.

In respect of non-resident enterprises that have obtained the income stipulated in Paragraph 3 of Article 3 hereof, the applicable tax rate shall be 20%.

Chapter II Taxable Income

Article 5 The balance of an Enterprise's total income in each taxable year deducted by non-taxable income, tax-exempted income, various deductions and permitted offset of losses in previous year(s) shall be the taxable income.

Article 6 Income obtained by Enterprises from various sources in monetary and non-monetary terms shall be the total income, including:

1. income from sales of goods;
2. income from provisions of services;
3. income from transfer of property;
4. income from equity investment such as dividends and bonuses;
5. interest income;
6. rental income;
7. income from royalties;
8. income from donations; and
9. other income.

Article 7 The following income from the total income shall not be taxable:

1. governmental funding;
2. administrative fees and government funds collected and included under governmental fiscal management in accordance with the law; and
3. other non-taxable income prescribed by the State Council.

Article 8 Reasonable expenses that are actually incurred by an Enterprise and are related to the income obtained by the Enterprise, including costs, fees, tax payments, losses and other expenses may be deducted from taxable income.

Article 9 As regards the expenditures for public welfare donations incurred by an enterprise, when computing taxable income, the portion within 12% of the total annual

profit may be deducted, and the portion in excess of 12% thereof may be carried forward to be deducted in the following three years.

Article 10 The following expenses shall not be deducted from taxable income:

1. income from equity investment paid to investors such as dividends and bonuses;
2. payment of enterprise income tax;
3. late tax payment fines;
4. penalties, fines, and losses from property confiscation;
5. donation payments other than those prescribed in Article 9 hereof;
6. sponsorship fees;
7. unverified reserve expenditures; and
8. other expenses unrelated to income obtained.

Article 11 In computing taxable income, the depreciation of fixed assets calculated by an Enterprise in accordance with relevant provisions may be deducted.

No depreciation shall be computed and deducted for the following fixed assets:

1. fixed assets, other than houses and buildings, that have not yet been used;
2. fixed assets leased from other parties by means of business lease;
3. fixed assets leased to other parties by means of lease financing;
4. fixed assets that have been depreciated in full but are still in use;
5. fixed assets that are unrelated to business activities;
6. land credited as fixed assets after independent price valuation;
7. other fixed assets for which depreciation must not be calculated.

Article 12 In computing taxable income, the amortization expenses of intangible assets calculated by an Enterprise in accordance with relevant provisions may be deducted.

No amortization expenses shall be computed and deducted for the following intangible assets:

1. intangible assets of which the self-development expenses have been deducted from taxable income;
2. self-created goodwill;
3. intangible assets that are unrelated to business activities; and
4. other intangible assets for which amortization must not be calculated.

Article 13 In the computation of taxable income, the following expenses incurred by an Enterprise as long-term deferred expenses and computed in accordance with relevant provisions may be deducted:

1. reconstruction expenses for fixed assets that have been depreciated in full;
2. reconstruction expenses for fixed assets leased from other parties;
3. expenses for major repairs of fixed assets; and
4. other expenses that ought to be treated as long-term deferred expenses.

Article 14 During the period when an Enterprise invests outside the territory, the cost of investment in assets must not be deducted from taxable income.

Article 15 The cost for inventory used or sold by an Enterprise and calculated in accordance with relevant provisions may be deducted from taxable income.

Article 16 Where an Enterprise transfers assets, the net value thereof may be deducted from taxable income.

Article 17 Where an Enterprise computes its consolidated enterprise income tax, the losses of business institutions outside the territory shall not be offset by the profits of business institutions within the territory.

Article 18 Where an Enterprise sustains losses in a taxable year, they may be brought forward to the succeeding year(s) and be offset by the income of the succeeding year(s), but the period for bringing forward shall not exceed five years.

Article 19 Where a non-resident enterprise has obtained the income stipulated in Paragraph 3 of Article 3 hereof, the taxable income shall be calculated in accordance with the following methods:

1. for income from equity investment such as dividend and bonus, and income from interest, rental and royalties, the total income shall be the taxable income;
2. for income from property transfer, the balance derived from the deduction of the total income with the property's net asset shall be the taxable income;
3. for other income, the taxable income shall be calculated with reference to the aforementioned two methods.

Article 20 The income, the specific scope and standards of deduction and the specific methods of assets taxation treatment required in this Chapter shall be prescribed by the departments in charge of finance and taxation under the State Council.

Article 21 In computing taxable income, where an Enterprise's financial and accounting treatment methods are inconsistent with tax laws and administrative

regulations, the computation shall be done in accordance with the tax laws and administrative regulations.

Chapter III Payable Tax

Article 22 The payable tax of an Enterprise is the balance derived from the taxable income of Enterprises multiplied by the applicable rate minus the amount of tax reduction and exemption pursuant to the provisions of this Law regarding preferential tax treatment.

Article 23 The income tax that has been paid outside the territory for the following income obtained by Enterprises may be offset from the payable tax of the current period. The offset limit is the payable tax calculated in accordance with provisions of this Law in respect of the income of such item. The portion in excess of the offset limit may be made up by the balance of the offset amount of the current year out of the annual offset limit within the next five years:

1. the taxable income originating outside China by resident enterprises; and
2. the taxable income obtained outside China by non-resident enterprises but having an actual connection with the institutions or establishments set up by such non-resident enterprises within China

Article 24 Where income from equity investment such as dividend and bonus originating outside the territory of China is shared by foreign enterprises directly or indirectly controlled by resident enterprises, the portion undertaken by foreign enterprises in the actual income tax actually paid outside the territory by the foreign enterprises may be offset in the offset limit prescribed in Article 23 hereof as the such resident enterprises' overseas income tax that may be offset.

Chapter IV Preferential Tax Treatment

Article 25 The industries and projects that are given key support and encouraged to develop by the State may be given preferential enterprise income tax treatment.

Article 26 The following income of Enterprises is tax-exempted income:

1. income from interests on government bonds;
2. income from equity investment income such as dividend and bonus between qualified resident enterprises;

3. income from equity investment such as dividend and bonus that are obtained from resident enterprises by non-resident enterprises with institutions or establishments in China and have an actual relationship with such institutions or establishments; and
4. income of qualified non-profit organizations.

Article 27 The following income of Enterprises may be entitled to exemption or reduction of enterprise income tax:

1. income from engaging in projects of agriculture, forestry, animal husbandry and fisheries;
2. income from investment and operation of public infrastructure projects under key state support;
3. income from engaging in qualified projects of environmental protection and energy and water conservation;
4. income from qualified transfer of technology; and
5. income prescribed by Paragraph 3 of Article 3 hereof.

Article 28 Qualified small low-profit Enterprises are given the reduced enterprise income tax rate of 20%.

High-tech Enterprises to which the State need to give key support are given the reduced enterprise income tax rate of 15%.

Article 29 The autonomous authority of an ethnic autonomous region may decide on the reduction or exemption of the portion of enterprise income tax shared by the regional finance that shall be paid by Enterprises of the region. Where an autonomous prefecture or autonomous county decides on the reduction or exemption, it must report the same to the people's government of the local province, autonomous region or municipality directly under the central government for approval.

Article 30 The following expenses of Enterprises may be additionally deducted at the time of calculating taxable income:

1. research and development expenses incurred by Enterprises in the development of new technologies, new products and new techniques; and
2. wages paid for job placement of disabled persons and other persons whose employment is encouraged by the State.

Article 31 Venture investment enterprises that engage in venture investment to which the State need to give key support and encouragement may offset the taxable income at a certain ratio of the investment amount.

Article 32 Where it is necessary to accelerate the depreciation of the fixed assets of Enterprises due to technology advancement, the years of depreciation may be shortened or an accelerated depreciation method may be adopted.

Article 33 The income obtained by Enterprises from the production of products in line with state industrial policies through comprehensive use of resources may be deducted from the taxable income.

Article 34 The investment by Enterprises on procurement of special facilities for environmental protection, energy and water conservation and safe production may be offered a tax credit at a certain rate.

Article 35 The specific measures for preferential tax treatment prescribed in this Law shall be formulated by the State Council.

Article 36 As needed by the development of national economy and society, or where there is a significant impact on the business activities of Enterprises due to unexpected public incidents and other reasons, the State Council may formulate special preferential policies on enterprise income tax and report the same to the Standing Committee of the National People's Congress for the record.

Chapter V Tax Withheld at Source

Article 37 The payable income tax on income specified in Paragraph 3 of Article 3 hereof obtained by non-resident enterprises shall be subject to tax withheld at source, with the payer as the withholding agent. The tax payment shall be withheld from the amount paid or the payable amount due from each tax payment and payable amount of the withholding agent.

Article 38 In respect of the payable income tax from income obtained by non-resident enterprises from project works and labor services in China, the tax authority may designate the payer of project price or labor fees as withholding agent.

Article 39 In respect of the income tax that shall be withheld in accordance with Articles 37 and 38 hereof, where the withholding agent has not withheld or failed to perform the withholding obligation in accordance with the law, the taxpayer shall pay in the place where the income generates. Where the taxpayer does not pay in accordance with the law, the tax authority may pursue the payable tax amount of such taxpayer from the amount payable by the payer of other income projects in China of such taxpayer.

Article 40 The withholding agent shall turn the tax payment withheld to the treasury within seven days from the day of withholding, and submit a statement of withholding enterprise income tax to the tax authority of the place where it is located.

Chapter VI Special Tax Payment Adjustment

Article 41 The business transactions between Enterprises and their affiliates that reduce the taxable income or income of such Enterprises and their affiliates not in compliance with the arm's length principle, the taxation authority has the right to make an adjustment with reasonable methods.

The cost incurred in joint development and transfer of intangible assets, or joint provision and acceptance of labor services by Enterprises and their affiliates shall be shared under the arm's length principle in computing the taxable income.

Article 42 Enterprises may report to the tax authority the pricing principle and calculation method of the transactions between them and their affiliates. Upon negotiation and confirmation with the Enterprises, the tax authority may reach the advance pricing arrangement.

Article 43 Where Enterprises submit to the tax authority the annual enterprise income tax return, they shall enclose a statement of the annual business transactions in respect of the business transactions of the Enterprises and their affiliates.

Where the tax authority conducts affiliated business investigation, Enterprises and their affiliates, and other enterprises relevant to the affiliated business investigation shall provide the relevant information in accordance with provisions.

Article 44 Where Enterprises fail to provide the information of business transactions with their affiliates, or provide false or incomplete information, which cannot faithfully reflect their affiliated business transactions, the tax authority has the right to verify its taxable income legally.

Article 45 Where resident enterprises or Enterprises controlled by resident enterprises and Chinese residents and established and in the country (region) where the actual tax burden is obviously lower than the tax rate prescribed by Paragraph 1 of Article 4 hereof do not distribute profits or reduce the profits to be distributed due to reasons other than reasonable business needs, the portion of the above profits belonged to such resident enterprises shall be included in the income of such resident enterprises of the current period.

Article 46 The interest fee incurred in excess of the prescribed standard obtained by Enterprises from the loan investment and equity investment of their affiliates may not be deducted at the time of calculating the taxable income.

Article 47 Where Enterprises implement other arrangement without reasonable business objectives to reduce the payable income or income, the tax authority has the right to make adjustments with reasonable methods.

Article 48 Where additional tax payment is required by a tax authority in respect of the tax payment adjustment made in accordance with the provisions of this Chapter, such additional tax shall be collected, and the interest thereupon shall be collected in accordance with the provisions of the State Council.

Chapter VII Administration of Tax Collection

Article 49 The administration of the collection of enterprise income tax shall follow the provisions of this Law in addition to the Law of the People's Republic of China on the Administration of Tax Collection.

Article 50 Unless otherwise specified by tax laws and administrative regulations, resident enterprises shall take the place of registration of the Enterprise as the place of tax payment; but if the place of registration is outside the territory, the place of tax payment shall be the place where the actual tax administration is located.

Where resident enterprises establish business institutions in China without a legal-person status, enterprise income tax shall be calculated and paid on a consolidated basis.

Article 51 In respect of non-resident enterprises that obtain the income prescribed in Paragraph 2 of Article 3 hereof, the place of tax payment shall be the place where the institution or establishment is located. Non-resident enterprises that set up two or more institutions or establishments in China, if meeting the conditions prescribed by departments in charge of taxation under the State Council, select its main institution or establishment to pay the consolidated enterprise income tax.

Where non-resident enterprises obtain the income prescribed in Paragraph 3 of Article 3 hereof, the place of tax payment shall be the place where the withholding agent is located.

Article 52 Enterprises may not pay consolidated enterprise income tax unless otherwise prescribed by the State Council.

Article 53 Enterprise income tax shall be calculated in accordance with the taxable year which starts from January 1 to December 31 of a calendar year.

If an Enterprise commences business or terminates its business activities during the taxable year and the actual business period of such taxable year is less than 12 months, the actual business period shall be treated as a taxable year.

Where the Enterprise is liquidated in accordance with the law, the liquidation period shall be a taxable year.

Article 54 Enterprise income tax shall be prepaid on a monthly or quarterly basis.

Enterprises shall submit a prepaid enterprise income tax return to the tax authority within 15 days from the completion of a month or quarter to make tax prepayment.

Enterprises shall submit an annual enterprise income tax return to the tax authority within five months from the completion of a year and make the settlement of the payable and refundable tax payment.

Enterprises that submit the enterprise income tax return shall enclose a financial report and other relevant information in accordance with provisions.

Article 55 Where Enterprises terminate business activities in the midst of the year, they shall handle with the tax authority the settlement and payment of enterprise income tax of the current period within 60 days from the actual termination of business.

Enterprises shall, prior to handling registration cancellation, file a return of the income liquidated and pay enterprise income tax in accordance with the law.

Article 56 Enterprise income tax paid in accordance with this Law is calculated in Renminbi. Where the income is calculated in a currency other than Renminbi, it shall be converted into Renminbi for tax payment.

Chapter VIII Supplementary Provisions

Article 57 Enterprises set up with approval prior to the promulgation of this Law which enjoy low preferential tax rate in accordance with the tax laws and administrative regulations at the period may, pursuant to the provisions of the State Council, gradually transit to the tax rate provided herein within five years of the implementation of this Law. Where such enterprises enjoy regular tax exemption and reduction, the treatment may continue to apply until expiry after the implementation of this Law. However, those that fail to be entitled to this treatment by reason of not making any profits, the preferential period shall be calculated from the year this Law is implemented.

High and new technology enterprises that are set up in a specific zone in accordance with the law for the purpose of external economic cooperation and technology exchange and that are newly set up and need key state support in the region of special policy of such region specified by the State Council may be eligible for transitional treatment, and the specific measures shall be provided by the State Council.

Other enterprises in the category of encouragement as confirmed by the state may be eligible for tax exemption and reduction in accordance with the provisions of the State Council.

Article 58 Where agreements on taxation concluded by the People's Republic of China and foreign governments contain different provisions, such agreements apply.

Article 59 The implementing regulations shall be formulated by the State Council on the basis of this Law.

Article 60 This Law shall come into effect as of January 1, 2008. The Income Tax Law of the People's Republic of China on Foreign-invested Enterprises and Foreign Enterprises adopted at the Fourth Session of the Seventh National People's Congress on April 9, 1991, and the Interim Regulations of the People's Republic of China on Company Income Tax promulgated by the State Council on December 13, 1993 shall be repealed simultaneously.

Appendix III: Value-Added Tax Interim Regulations of the PRC

Value-Added Tax Interim Regulations of the People's Republic of China (Revised in 2017)

Order of the State Council of the People's Republic of China No.691

Date: November 19, 2017

- Published on December 13, 1993;
- revised and adopted on November 5, 2008;
- revised for the 1st time on February 6, 2016; and
- revised for the 2nd time on November 19, 2017.

Article 1 Entities and individuals selling goods, providing labor services of processing, repairs or maintenance (hereinafter referred to as the "*labor services*"), or selling services, intangible assets or real property in China, or importing goods to China, shall be identified as taxpayers of value-added tax, and shall pay value-added tax under these Regulations.

Article 2 Value-added tax rates¹⁹:

1. Taxpayers that sell goods, labor services or tangible personal property leasing services or import goods and do not fall within the scope as specified in Item 2, Item 4 and Item 5 of this Article shall be subject to a 17% tax rate.
2. Taxpayers that sell transport services, postal services, basic telecommunications services, construction services, or real property leasing services, sell real property, transfer the land use right, or sell or import the goods listed below shall be subject to an 11% tax rate:
 - (1) Such agricultural products as grain, edible vegetable oil, and common salt;
 - (2) Tap water, heat supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, dimethyl ether, methane and civil-use coal products;
 - (3) Books, newspapers, magazines, audio-visual products, and electronic publications;
 - (4) Feeds, chemical fertilizers, pesticides, agricultural machineries and mulching films; and
 - (5) Other goods specified by the State Council.

¹⁹ VAT rates stipulated in Art. 2 Par. 1 and Par. 2 have been reduced to 13% and 9% respectively.

3. Taxpayers that sell services or intangible assets and do not fall within the scope as specified in Item 1, Item 2 and Item 5 of this Article shall be subject to a 6% tax rate.
4. Taxpayers who export goods are subject to a zero-tax rate, unless otherwise specified by the State Council.
5. Domestic entities and individuals that sell services or intangible assets under the scope specified by the State Council across borders are subject to a zero-tax rate.

Adjustments to the tax rates shall be decided by the State Council.

Article 3 Taxpayers concurrently engaging in trading items that are subject to VAT at different rates shall separately calculate the sales value of such items based on the applicable tax rates. Where the sales values are not calculated separately, the highest tax rate applies.

Article 4 Except in circumstances specified in Article 11 of these Regulations, taxpayers' liability for selling goods, labor services, services, intangible assets, or real property (hereinafter referred to as the "*taxable sales activities*") shall amount to the balance after deducting input tax from output tax in the current period. The formula for the taxable amount is as follows:

$$\text{Taxable Amount} = \text{Output Tax in the Current Period} - \text{Input Tax in the Current Period}$$

Where output tax is less than input tax in the current period, the unutilized input tax may be carried forward to the subsequent period.

Article 5 Output tax is the amount of value-added tax calculated and collected by taxpayers for their taxable sales activities based on multiplication of the sales value by the rates listed in Article 2 of these Regulations. The formula for the calculation of output value-added tax is as follows:

$$\text{Output Tax} = \text{Sales Value} \times \text{Tax Rate}$$

Article 6 Sales value shall include the full price charged by taxpayers for their taxable sales activities plus additional fees and charges but shall not include the output value-added tax.

Sales value shall be calculated in Renminbi. Taxpayers who sell goods in currencies other than Renminbi shall convert their sales value into Renminbi.

Article 7 If a taxpayer has any taxable sales activity at a significantly lower price without a good reason, the sales value in question shall be determined by the competent taxation authority.

Article 8 Input tax is the amount of value-added tax payable by the taxpayer that purchases goods, labour services, services, intangible assets, or real property.

Input tax shall be deducted from output tax in the following circumstances:

1. The amount of value-added tax is printed on the value-added tax invoice acquired from the seller.
2. The amount of value-added tax is printed on the paid import value-added tax receipt acquired from Customs.
3. Input tax on purchases of agricultural products is calculated by multiplying the 11% deductible rate by the selling price of the agricultural products in question printed on the purchase invoice or sales invoice for such agricultural products, as supported by related value-added tax invoices or paid import value-added tax receipts from Customs, unless otherwise specified by the State Council. The formula for the calculation of input tax is as follows:

$$\text{Input Tax} = \text{Selling Price} \times \text{Deductible Rate}$$

4. The amount of value-added tax indicated on the tax payment certificate issued by the tax authority, or the party obligated with withholding tax for the tax withheld and remitted on a commission basis, if labor services, services, intangible assets or domestic real property are purchased from overseas entities or individuals.

Adjustments to deductible items and rates shall be determined by the State Council.

Article 9 Input tax on goods, labor services, services, intangible assets, and real property purchased by taxpayers shall not be deducted from output tax if the related documentation for value-added tax rebates does not meet the requirements as stipulated in the relevant laws, regulations or rules of the taxation division of the State Council.

Article 10 Input tax on the following items shall not be deducted from output tax:

1. Goods, labor services, services, intangible assets and real property purchased for items subject to the simplified calculation method, items exempted from value-added tax, or for collective welfare or personal consumption;
2. Goods and related labor services and transport services purchased but then damaged or lost in abnormal circumstances;

3. Products, and other goods (excluding fixed assets), labor services and transport services purchased for processing finished products, lost or damaged in abnormal circumstances; and
4. Other items specified by the State Council.

Article 11 Small-scale taxpayers that have taxable sales activities shall calculate the taxable amount under the simplified method by directly multiplying the sales value by the applicable rate, and the input tax shall not be deductible. The formula for the taxable amount is as follows:

$$\text{Taxable Amount} = \text{Sales Value} \times \text{Applicable Tax Rate}$$

The criteria for determining small-scale taxpayers shall be provided by the finance and tax division of the State Council.

Article 12 Small-scale taxpayers shall be subject to the 3% value-added tax rate, unless otherwise stipulated by the State Council.

Article 13 Taxpayers other than small-scale taxpayers shall conduct registration with the competent taxation authorities. The procedures for registration shall be determined by the tax division of the State Council.

Small-scale taxpayers who are able to prove their accounting and auditing records and produce accurate taxation information may register with the competent taxation authorities not as small-scale taxpayers and calculate relevant tax payable as stipulated in these Regulations.

Article 14 Taxpayers who import goods shall calculate their taxable amount by multiplying the gross taxable price by the applicable tax rates provided in Article 2 of these Regulations. The formulae for the gross taxable price and the taxable amount are as follows:

$$\text{Gross Taxable Price} = \text{Price after Customs Duty Consumption Tax}$$

$$\text{Taxable Amount} = \text{Gross Taxable Price} \times \text{Tax Rate}$$

Article 15 The items listed below shall be exempted from value-added tax:

1. Agricultural products produced and sold by agricultural producers themselves;
2. Prophylactic drugs and devices;
3. Antique books;
4. Imported instruments and equipment to be directly used in scientific research, scientific experiments and teaching;

5. Materials and equipment imported by foreign governments and international organizations for gratis aid;
6. Products exclusively for the disabled directly imported by organizations for the disabled; and
7. Sales of goods used by sellers themselves.

Except for those specified in the above Articles, items subject to exemption and deduction for value-added tax purposes shall be determined by the State Council. No localities or departments may decide exempted or deductible items.

Article 16 Taxpayers who are concurrently trading exempted and deductible items shall separately calculate the sales value of such exempted and deductible items so that sales values not separately calculated shall not be exempted or deductible.

Article 17 Taxpayers whose sales value does not reach the threshold for levying value-added tax as specified by the finance and tax division of the State Council shall be exempted from value-added tax. Those whose sales value has reached the aforesaid threshold shall be bound to calculate and pay value-added tax under these Regulations.

Article 18 For entities or individuals outside China selling labor services in China without an office in China, local agents, or an appointed agent, purchasers shall become the parties to withhold and pay tax on their behalf.

Article 19 Value-added tax liability occurs (tax point):

1. For taxable sales activities, the tax point shall be the date on which the full payment is made or the receipt of the payment is delivered. Should the invoice be issued in advance, the tax point shall be the date on which the invoice is issued.
2. For imported goods, the tax point shall be the date on which the import declaration is lodged.

The tax point for withholding value-added tax shall be the date on which value-added tax liability on taxpayers occurs.

Article 20 Value-added tax shall be levied by the taxation authorities. Value-added tax on imported goods shall be levied by Customs.

Value-added tax on articles carried or posted by individuals to China for personal consumption shall be calculated and levied together with customs duties. The practical rules shall be drafted by the Customs Tariff Commission of the State Council jointly with the departments concerned.

Article 21 When carrying on taxable sales activities, taxpayers shall issue value-added tax special invoices upon the request of buyers, and shall print the sales value and output tax amount on such value-added tax special invoices.

Value-added tax special invoices shall not be issued in the following circumstances:

1. The purchase of taxable sales activities by individual consumers; or
2. The application of VAT exemption rules to taxable sales activities.

Article 22 Localities accepting value-added tax payments are listed as follows:

1. Traders with fixed business addresses shall file tax returns with the competent taxation authorities at the locations of their offices. Headquarters and local offices located in different counties (cities) shall separately file tax returns with the competent local taxation authorities in their localities. Upon approval of the finance and tax division of the State Council or the authorized departments of finance and tax, headquarters may file tax returns with the competent taxation authorities within their localities for themselves and their local offices.
2. Traders with fixed business addresses who sell goods or taxable labor services in other counties (cities) shall report the non-local business concerned to the competent taxation authorities at the locations of their offices, and shall file tax returns in the locations of their offices. Where the non-local business has not been reported, the traders in question shall file tax returns with the competent taxation authorities in the localities where the sales or taxable labor services in question take place. Should taxpayers not file tax returns with the competent taxation authorities in the localities where the sales or taxable labor services in question take place, the competent taxation authorities at the locations of their offices shall pursue the due tax from these taxpayers.
3. Traders without fixed business addresses who sell goods or labor services shall file tax returns with the competent taxation authority in the localities where the sales or taxable labor services in question take place. Should taxpayers not file tax returns with the competent taxation authorities in the localities where the sales or taxable labor services in question take place, they shall pay tax to the competent local taxation authorities at the locations of the traders' offices or domiciles.
4. Tax returns and tax on imported goods shall be filed with and paid to Customs.

Parties who have the obligation of withholding tax shall file tax returns for the withheld tax to the competent tax authorities at the locations of the parties' offices or domiciles.

Article 23 The value-added tax period shall be on the 1st, 3rd, 5th, 10th or 15th day of each month, or on a monthly or quarterly basis. The due date of value-added tax shall be determined by the competent taxation authorities based on the taxable amount. Taxpayers who are unable to pay value-added tax on a periodical basis may pay tax after every single transaction.

Taxpayers whose tax periods are on a monthly or quarterly basis shall file tax returns within 15 days of the end of the tax period. Taxpayers whose tax periods are on the 1st, 3rd, 5th, 10th or 15th day of each month shall pre-pay tax within 5 days of the end of the tax period, and, between the 1st and 15th days of the following month, file tax returns and settle the balance of the taxable amount for the previous month.

The tax periods for parties who are obliged to withhold tax shall be fixed in line with the previous two paragraphs.

Article 24 Taxpayers who import goods shall pay tax within 15 days of Customs sending out the Customs Import Value-Added Tax Payment Notice.

Article 25 Taxpayers who are qualified by the rules governing tax refunds (exemption) for exported goods shall complete the export procedures with Customs, and may apply for the tax refunds (exemption) for the exported goods in question to the competent taxation authorities on a monthly basis by producing the related export declaration documents and other evidence within the filing period as specified in the export tax refund (exemption) rules; domestic entities and individuals that sell services and intangible assets across borders and are eligible for the provisions concerning tax refund (exemption) shall apply to the competent taxation authorities on schedule for the tax to be refunded (exempted). The practical rules shall be drafted by the divisions of finance and tax of the State Council.

If exported goods are returned or withdrawn from Customs, the taxpayers in question shall pay back tax refunds in accordance with the relevant statutory requirements.

Article 26 Value-added tax shall be levied and administered under the Tax Levy and Administration Law of the People's Republic of China and these Regulations.

Article 27 Where there are other provisions concerning matters about value-added tax payments by taxpayers, as separately announced by the State Council or by the competent taxation authority or the competent finance authority under the State Council upon approval of the State Council, such provisions shall prevail.

Article 28 These Regulations shall come into effect as of January 1, 2009.

Appendix IV: Company Law of the People's Republic of China

Order of the President of the People's Republic of China No.15

- ✓ Adopted on December 29,1993;
- ✓ Most recent amendment October 26, 2018.

Chapter I General Provisions

Article 1 The Company Law of the People's Republic of China (hereinafter referred to as the "Law") is enacted for the purposes of regulating the organization and activities of companies, protecting the legitimate rights and interests of companies, shareholders and creditors, maintaining the social economic order, and promoting the development of the socialist market economy.

Article 2 For the purpose of the Law, the term "company" refers to a limited liability company or a joint stock limited company established within the territory of the People's Republic of China in accordance with the Law.

Article 3 A company is an enterprise legal person which has independent legal person property and enjoys legal person property rights. A company shall be liable for its debts to the extent of all its assets.

A shareholder of a limited liability company is liable to the company to the extent of its/his respective capital contribution. A shareholder of a joint stock limited company is liable to the company to the extent of the shares it/he has subscribed for.

Article 4 Shareholders of a company are entitled to enjoy the return on equity, participate in important decision-making, select managers and enjoy other rights in accordance with the law.

Article 5 In conducting its business operations, a company shall abide by laws and administrative regulations, observe social ethics and business ethics, act in good faith, accept the supervision of the government and the general public, and bear social responsibility.

The legitimate rights and interests of a company shall be protected by law and shall not be violated.

Article 6 To establish a company, an application for registration shall be filed with the company registration authority in accordance with the law. Where the application meets the establishment requirements of the Law, the company registration authority shall register the company as a limited liability company or joint stock limited company.

Where the application does not meet the establishment requirements of the Law, it shall not be registered as a limited liability company or joint stock limited company.

Where any law or administrative regulation provides that the establishment of a company is subject to the approval, the relevant approval formalities shall be gone through in accordance with the law prior to the registration of the company.

The public may apply to the company registration authority for inquiring about the registration details of any company, and the company registration authority shall provide the public with such inquiry services.

Article 7 A lawfully established company shall be issued with a company business license by the company registration authority. The date of issuance of the company business license shall be the date of establishment of the company.

The company business license shall state the company's name, domicile, registered capital, business scope, name of the legal representative and other information.

In the event of any change in the details recorded in the company business license, the company shall go through the formalities for registration of changes in accordance with the law and the company registration authority shall reissue the company business license.

Article 8 A limited liability company established in accordance with the Law shall include the words "limited liability company" or "limited company" in its name.

A joint stock limited company established in accordance with the Law shall include the words "joint stock limited company" or "joint stock company" in its name.

Article 9 A limited liability company that seeks to be converted into a joint stock limited company shall satisfy the conditions prescribed in the Law for joint stock limited companies.

A joint stock limited company that seeks to be converted into a limited liability company shall satisfy the conditions prescribed in the Law for limited liability companies. In either of the aforesaid cases, the claims and debts of the company prior to the conversion shall be succeeded by the company after the conversion.

Article 10 A company shall regard its main office as its domicile.

Article 11 A company shall formulate its articles of association in accordance with the law. The articles of association shall be binding on the company and its shareholders, directors, supervisors and senior officers.

Article 12 A company's business scope shall be defined in its articles of association and shall be registered in accordance with the law. A company may change its business scope by amending its articles of association, provided that it shall go through the formalities for registration of changes.

Where the business scope of a company includes any item subject to approval pursuant to any law or administrative regulation, the approval shall be obtained in accordance with the law.

Article 13 The legal representative of a company shall be the chairman of its board of directors, its executive director or its manager in accordance with the articles of association of the company, and shall be registered as such in accordance with the law. In the event of a change of the legal representative of the company, the company shall go through the formalities for registration of the change.

Article 14 A company may set up branches. To set up a branch, the company shall file a registration application with the company registration authority to obtain a business license. A branch shall not enjoy the status of a legal person and its civil liabilities shall be borne by the company.

A company may establish subsidiaries which enjoy the status of legal persons and shall independently bear their own civil liabilities in accordance with the law.

Article 15 A company may invest in other enterprises. However, unless otherwise provided for in any law, a company shall not become a capital contributor that shall be jointly and severally liable for the debts of an enterprise so invested in.

Article 16 Where a company intends to invest in any other enterprise or provide a guaranty for any other person, a resolution shall be passed, pursuant to the company's articles of association, by the company's board of directors, shareholders 'meeting or general meeting of shareholders. Where the articles of association prescribe any limit on the total amount of investments or guaranties allowed, or on the amount of a single investment or guaranty allowed, the said total amount or amount shall not exceed the limits prescribed.

Where a company intends to provide a guaranty for any shareholder or actual controller of the company, a resolution shall be passed by the shareholders 'meeting or the general meeting of shareholders.

No shareholder referred to in the preceding paragraph or under the control of the actual controller referred to in the preceding paragraph shall participate in voting on any

matter described in the preceding paragraph. Any such resolution shall be passed by a majority vote from the other shareholders attending the meeting.

Article 17 A company shall protect the legitimate rights and interests of its employees, enter into employment contracts with its employees in accordance with the law, purchase social insurance for employees, and strengthen labor protection so as to ensure work safety.

A company shall, through various means, enhance the professional education and in-service training of its employees so as to improve their quality as employees.

Article 18 The employees of a company shall, in accordance with the Labor Union Law of the People's Republic of China, organize a labor union, which shall carry out labor union activities and safeguard the legitimate rights and interests of the employees. The company shall provide the necessary conditions for its labor union to carry out its activities. The labor union shall, on behalf of the employees, enter into collective contracts with the company with respect to matters such as remuneration, working hours, welfare, insurance, and work safety and sanitation of the employees in accordance with the law.

In accordance with the Constitution and other relevant laws, a company shall practice democratic management through the employee representatives' assembly or otherwise.

When making a decision on company restructuring or any important issue relating to its business operations, or formulating any important rule or regulation, a company shall take into account the opinions of its labor union, and the opinions and proposals of its employees through the employee representatives' assembly or otherwise.

Article 19 Organizations of the Communist Party of China shall, in accordance with the Constitution of the Communist Party of China, be set up in companies and shall carry out Party activities. Companies shall provide the necessary conditions to facilitate the Party activities.

Article 20 The shareholders of a company shall abide by laws, administrative regulations and articles of association and exercise shareholders' rights in accordance with the law. They shall neither damage the interests of the company or other shareholders by abusing shareholders' rights nor damage the interests of any creditor of the company by abusing the company's independent status as a legal person or the limited liability of shareholders.

Any shareholder of a company who causes any loss to the company or to other shareholders by abusing shareholders' rights shall be liable for compensation in accordance with the law.

Where any of the shareholders of a company evades the payment of debts by abusing the company's independent status as a legal person or the limited liability of shareholders, thereby seriously damaging the interests of any creditor of the company, it shall be jointly and severally liable for the debts of the company.

Article 21 No controlling shareholder, actual controller, director, supervisor or senior officer of a company may damage the interests of the company by taking advantage of his/its affiliated relation.

Any person who causes any loss to the company by violating the preceding paragraph shall be liable for compensation.

Article 22 Any resolution of the shareholders 'meeting or general meeting of shareholders, or board of directors of a company that violates any law or administrative regulation shall be null and void.

Where the procedures for calling a shareholders 'meeting or a general meeting of shareholders, or a meeting of the board of directors, or the voting method used therein violates any law, administrative regulation or the company's articles of association, or where any resolution violates the company's articles of association, the shareholders may, within 60 days as of the date on which the resolution is passed, petition a people's court to nullify it.

Where the shareholders initiate a lawsuit under the preceding paragraph, the people's court may, at the request of the company, require the shareholders to provide a corresponding guaranty.

Where a company has, according to a resolution of the shareholders 'meeting or general meeting of shareholders, or board of directors, gone through the formalities for registration of changes, and a people's court declares the resolution null and void or strikes out the resolution, the company shall file an application with the company registration authority for cancellation of the change registration.

Chapter II Establishment and Structure of a Limited Liability Company

Section 1 Establishment

Article 23 To establish a limited liability company, the following conditions shall be met:

1. the number of shareholders constitutes a quorum;
2. the company has capital contributions in compliance with the articles of association of the related company which are subscribed for by all shareholders;
3. the articles of association are formulated collectively by shareholders;
4. the company has a name and an organizational structure that complies with the requirements for limited liability companies; and
5. the company has a domicile.

Article 24 A limited liability company shall be funded and established by no more than 50 shareholders.

Article 25 The articles of association of a limited liability company shall include the following items:

1. the name and domicile of the company;
2. the business scope of the company;
3. the registered capital of the company;
4. the names of the shareholders;
5. the forms, amounts and dates of capital contributions made by the shareholders;
6. the institutions of the company and their establishment, functions and powers and rules of procedure;
7. the legal representative of the company; and any other matter deemed necessary by the shareholders 'meeting of the company. The shareholders shall affix their signatures or seals on the articles of association of the company.

Article 26 The registered capital of a limited liability company shall be the total capital contributions subscribed for by all the shareholders as registered with the company registration authority.

Where the paid-in registered capital and the minimum registered capital for limited liability companies are otherwise provided for in any other laws, administrative regulations and decisions of the State Council, the relevant provisions shall prevail.

Article 27 A shareholder may contribute capital in cash, in kind or with intellectual property rights, land use rights or other non-monetary assets the value of which may be assessed in financial terms and the ownership of which may be transferred in accordance with the law, except for those assets that shall not be used as capital contributions under any other law or administrative regulation.

The value of any non-financial asset used as capital contribution shall be assessed and verified and shall not be overestimated or underestimated. Any law or administrative regulation that provides for the assessment of values shall be followed.

Article 28 Each shareholder shall within the prescribed time limit fully pay in the capital contribution it subscribes for as stipulated in the articles of association. A shareholder making capital contribution in cash shall deposit the capital contribution in full in a bank account opened by the limited liability company. A shareholder making capital contribution with non-monetary assets shall complete the transfer procedures for the relevant property rights in accordance with the law.

Where any shareholder fails to make a capital contribution in the manner as specified in the preceding paragraph, the relevant shareholder shall not only make full payment to the company but shall also be liable for breach of contract to shareholders who have paid their capital contributions in full on time.

Article 29 After shareholders subscribe for the full amount of capital contributions as provided for by the articles of association, the representative designated by the shareholders, or the agent appointed by the shareholders shall submit such documents as a company registration application and articles of association to the company registration authority for registration of establishment.

Article 30 After the incorporation of a limited liability company, in the event that the actual value of non-monetary assets as capital contributions for its incorporation is found to be notably lower than the value specified in the articles of association of the company, the shortfall shall be made up for by the shareholder or shareholders who contributed that capital, and the other shareholders of the company at the time of incorporation shall be jointly and severally liable therefor.

Article 31 Following the incorporation of a limited liability company, each shareholder shall be issued with a capital contribution certificate, which shall specify the following items:

1. the name of the company;
2. the date of incorporation of the company;
3. the registered capital of the company;
4. the name of the shareholder, and the amount and date of its capital contribution;
5. the serial number and date of issue of the capital contribution certificate.

The capital contribution certificate shall bear the seal of the company.

Article 32 A limited liability company shall prepare a register of members, which shall record the following items:

1. the name and domicile of each shareholder;
2. the capital contribution made by each shareholder; and
3. the serial number of each capital contribution certificate.

The shareholders recorded in the register of members may, pursuant to the register of members, claim and exercise shareholders' rights.

A company shall register the name of each shareholder with the company registration authority. The company shall handle the registration of change in the event of any change in the registered details. Any registration detail that fails to be registered or amended shall not be valid against any third party.

Article 33 Any shareholder is entitled to consult and copy the articles of association, minutes of shareholders' meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial reports.

Any shareholder may request to consult the accounting books of the company. Where a shareholder requests to consult the accounting books of the company, a written request shall be submitted to the company, stating the purpose thereof. Where the company, for any justifiable reason, considers that the shareholder's request for consultation of the accounting books is made for any improper purpose and may impair the legitimate interests of the company, the company may decline the shareholder's request and shall, within 15 days as of the date on which the shareholder submits the written request, issue the shareholder with a written reply, stating the reasons therefor. Where a company declines the request of any shareholder for consultation of the company's accounting books, the shareholder may request a people's court to require the company to allow the consultation sought.

Article 34 Shareholders shall draw dividends in proportion to their actual capital contributions and when a company increases its capital, shall have a pre-emptive right to subscribe for the increased capital in proportion to their actual capital contributions, unless otherwise agreed by the shareholders.

Article 35 No shareholder shall withdraw its capital contribution following the incorporation of the company.

Section 2 Organizational Structure

Article 36 The shareholders' meeting of a limited liability company shall consist of all its shareholders. The shareholders' meeting is the highest authoritative body of the company and shall exercise its functions and powers in accordance with the Law.

Article 37 The shareholders' meeting shall exercise the following functions and powers:

1. determine the company's operational guidelines and investment plans;
2. elect and replace non-employee representative directors and supervisors and determine matters relating to their remunerations;
3. deliberate on and approve reports of the board of directors;
4. deliberate on and approve reports of the board of supervisors or of the supervisor(s);
5. deliberate on and approve annual budgets and final accounts of the company;
6. deliberate on and approve the company's profit distribution plans and loss recovery plans;
7. make resolutions on any increase or reduction of the company's registered capital;
8. make resolutions on the issuance of corporate bonds;
9. make resolutions on any combination, division, dissolution, liquidation or transformation of the company;
10. revise the articles of association of the company; and
11. any other function or power specified in the articles of association.

In respect of any of the matters listed in the preceding paragraph, where the shareholders have unanimously agreed in writing, a decision may be made directly without convening a shareholders' meeting and the decision document shall bear the signatures or seals of all the shareholders.

Article 38 The first shareholders' meeting shall be convened and presided over by the shareholder with the largest capital contribution and shall exercise its functions and powers in accordance with the Law.

Article 39 Shareholders' meetings shall be classified into regular meetings and interim meetings.

Regular meetings shall be held on time as prescribed in the company's articles of association. An interim meeting shall be held where it is proposed by shareholders representing one tenth or more of the voting rights, by one third or more of the directors or by the board of supervisors or, where there is no board of supervisors, by a supervisor of the company.

Article 40 Where a limited liability company has established the board of directors, a shareholders 'meeting shall be convened by the board of directors and presided over by the chairman of the board of directors. Where the chairman is unable or fails to perform his duties, the deputy chairman of the board of directors shall preside over the meeting. Where the deputy chairman of the board of directors is unable or fails to perform his duties, a director shall be nominated by a majority of the directors to preside over the meeting.

Where a limited liability company has no board of directors, shareholders 'meetings shall be convened and presided over by the executive director.

Where the board of directors or the executive director is unable or fails to fulfill its or his duty to convene a shareholders 'meeting, the board of supervisors or, where there is no board of supervisors, a supervisor of the company shall convene and preside over the meeting. Where the board of supervisors or supervisor does not convene or preside over such a meeting, shareholders representing one tenth or more of the voting rights may convene and preside over the meeting on their own initiative.

Article 41 Unless otherwise specified in the articles of association or otherwise agreed by all shareholders, a notice of the shareholders 'meeting shall be given to shareholders 15 days in advance of the meeting.

Minutes shall be taken of decisions made on matters discussed at the shareholders' meeting and shall be signed by shareholders who attend the meeting.

Article 42 Unless otherwise specified in a company's articles of association, shareholders shall exercise their voting rights at shareholders 'meetings in proportion to their respective capital contributions.

Article 43 Unless otherwise provided in the Law, methods of deliberation and voting procedures of the shareholders' meeting shall be specified by a company's articles of association.

Any resolution made at the shareholders 'meeting on any revision to the company's articles of association, any increase or reduction of its registered capital, or any combination, division, dissolution or transformation of the company must be passed by shareholders representing two thirds or more of the voting rights.

Article 44 Except otherwise provided in Article 50 of the Law, the board of directors of a limited liability company shall comprise three to 13 members.

Where a limited liability company is established by two or more state-owned enterprises or two or more other state-owned investment entities, the board of directors

shall include employee representatives of the company. The board of directors of any other limited liability company may include employee representatives of the company. Employee representatives to serve as members of the board of directors shall be democratically elected by the employees of the company through the employee representatives' assembly, the employees' assembly or otherwise.

The board of directors shall have a chairman and may have deputy chairmen. The method of appointment of the chairman and deputy chairmen shall be specified by the articles of association.

Article 45 The term of office of directors shall be specified by the articles of association, but in any case, shall not exceed three years. Any director may, upon the expiration of his term of office, hold the directorship in consecutive terms if re-elected.

Where the re-election of directors is not held in time after the term of office of the existing directors has expired, or where the number of members of the board of directors falls below the quorum due to the resignation of any director during his term of office, the original director shall, before the newly-elected director assumes his post, carry out duties as a director in accordance with the laws, administrative regulations and articles of association.

Article 46 The board of directors shall be responsible to the shareholders' meeting and shall exercise the following functions and powers:

1. convene shareholders' meetings and report to the shareholders' meetings on its work;
2. execute resolutions of the shareholders' meetings;
3. determine the company's operational plans and investment plans;
4. formulate the company's annual budgets and final accounts;
5. formulate the company's profit distribution plans and loss recovery plans;
6. formulate the company's plans on the increase or reduction of its registered capital and on the issuance of corporate bonds;
7. formulate the company's plans on the combination, division, dissolution or transformation of the company;
8. make decisions on the establishment of the company's internal management departments;
9. make decisions on the appointment or dismissal of the company's manager and his remuneration, and, according to the nomination by the manager, make decisions on the appointment or dismissal of any deputy manager and financial principal and their remunerations;

10. develop the company's basic management system; and
11. any other function or power specified in the articles of association.

Article 47 A meeting of the board of directors shall be convened and presided over by the chairman of the board of directors. Where the chairman of the board of directors is unable or fails to perform his duties, the meeting shall be convened and presided over by the deputy chairman of the board of directors. Where the deputy chairman of the board of directors is unable or fails to perform his duties, the meeting shall be convened and presided over by a director nominated by a majority of the directors.

Article 48 Unless otherwise provided in the Law, methods of deliberation and voting procedures of the board of directors shall be specified by the company's articles of association.

The board of directors shall take minutes of decisions made on matters discussed at its meetings. Directors who attend the meeting shall sign on the minutes. Each director shall have one vote for voting on resolutions of the board of directors.

Article 49 A limited liability company may have a manager, who shall be appointed or dismissed by its board of directors. The manager shall be responsible to the board of directors and shall exercise the following functions and powers:

1. oversee the production and business operations of the company and organize the implementation of the resolutions of the board of directors;
2. organize the implementation of the company's annual operational plans and investment plans;
3. draw up plans on the establishment of the company's internal management departments;
4. draw up the company's basic management system;
5. formulate the company's specific rules and regulations;
6. propose the appointment or dismissal of the company's any deputy manager and financial principal;
7. decide on the appointment or dismissal of executive personnel other than those whose appointment or dismissal is to be decided by the board of directors; and
8. any other function or power conferred on the manager by the board of directors.

Where the functions and powers of the manager are otherwise provided in the articles of association, the articles of association shall prevail.

The manager shall attend meetings of the board of directors as a non-voting attendee.

Article 50 Limited liability companies with a smaller number of shareholders or those of a smaller scale may have an executive director without setting up the board of directors. The executive director may concurrently hold the post of a company manager.

The functions and powers of the executive director shall be specified by the articles of association.

Article 51 A limited liability company shall have the board of supervisors composed of no less than three members. Limited liability companies with a smaller number of shareholders or those of a smaller scale may have one to two supervisors without setting up the board of supervisors.

The board of supervisors shall include shareholders' representatives and an appropriate proportion of employee representatives which shall not be less than one third of the members of the board of supervisors, the specific proportion of which shall be prescribed by the articles of association. Employee representatives to serve as members of the board of supervisors shall be democratically elected by the employees of the company through the employee representatives' assembly, the employees' assembly or otherwise.

The board of supervisors shall have a chairman, who shall be elected by a majority of the supervisors. The chairman of the board of supervisors shall convene and preside over meetings of the board of supervisors. Where the chairman of the board of supervisors is unable or fails to perform his duties, a supervisor nominated by a majority of the supervisors shall convene and preside over meetings of the board of supervisors.

No director or senior officer of the company may concurrently serve as a supervisor.

Article 52 The term of office of a supervisor shall be three years. Any supervisor may, upon the expiration of his term of office, hold the supervisor's post in consecutive terms if re-elected.

Where the re-election of a supervisor is not held in time after the expiration of the term of office of the existing supervisor, or where the number of members of the board of supervisors falls below the quorum due to the resignation of any supervisor during his term of office, the original supervisor shall, before the newly-elected supervisor assumes his post, carry out duties as a supervisor in accordance with the relevant laws, administrative regulations and articles of association.

Article 53 The board of supervisors or, where there is no board of supervisors, the supervisor(s) of a company shall exercise the following functions and powers:

1. inspect the financial affairs of the company;
2. supervise performance of the directors and senior officers of their respective company duties and propose the removal of any director or senior officer who violates any law, administrative regulation, the articles of association or any resolution of the shareholders' meeting;
3. require any director or senior officer to take corrective action where his actions damage the interests of the company;
4. propose the holding of interim shareholders' meetings and convene and preside over shareholders' meetings where the board of directors does not exercise its duties in this regard as prescribed in the Law;
5. put forward proposals at shareholders' meetings;
6. initiate lawsuits against a director or senior officer in accordance with Article 151 of the Law; and
7. any other function or power specified in the articles of association.

Article 54 Supervisors may attend meetings of the board of directors as non-voting attendees, and may raise questions or put forward suggestions about matters to be decided by the board of directors.

The board of supervisors or, where there is no board of supervisors, the supervisors of a company find that the company is running abnormally, they may commence an investigation. Where necessary, they may, at the company's expense, hire an accounting firm to assist with the investigation.

Article 55 The board of supervisors shall hold at least one meeting a year. Any supervisor may propose an interim meeting of the board of supervisors. Unless otherwise specified in the Law, the methods of deliberation and voting procedures of the board of supervisors shall be specified by the articles of association. A resolution of the board of supervisors shall be passed by a majority of supervisors. The board of supervisors shall take minutes of decisions made on matters discussed at its meetings, and the minutes shall be signed by the supervisors attending the meetings.

Article 56 All expenses necessarily incurred by the board of supervisors or, where there is no board of supervisors, supervisor(s) of a company in the performance of their functions and powers shall be borne by the company.

Section 3 Special Provisions on Single Shareholder Limited Liability Companies

Article 57 The provisions of this Section shall apply to the establishment and organizational structure of a single shareholder limited liability company. Any matter not covered by this Section shall be governed by the provisions of Sections 1 and 2 of this Chapter.

For the purpose of the Law, the term "single shareholder limited liability company" refers to a limited liability company with only one natural or legal person as a shareholder.

Article 58 Any natural person may only establish one single shareholder limited liability company. Such single shareholder limited liability company shall not establish a new single shareholder limited liability company.

Article 59 The company registration and business license of a single shareholder limited liability company shall both clearly indicate whether the company is funded by a natural or legal person.

Article 60 The articles of association of a single shareholder limited liability company shall be formulated by the shareholder.

Article 61 A single shareholder limited liability company shall have no shareholders' meetings. Where the shareholder makes a decision on any of the matters listed in Paragraph 1 of Article 37 of the Law, it shall be recorded in writing, signed by the shareholder and kept in the company.

Article 62 The financial reports of a single shareholder limited liability company shall be prepared at the end of each financial year and shall be audited by an accounting firm.

Article 63 Where the shareholder of a single shareholder limited liability company is unable to prove that the property of the company is independent of the shareholder's own property, the shareholder shall be jointly and severally liable for the debts of the company.

Section 4 Special Provisions on Wholly State-owned Companies

Article 64 The provisions of this Section shall apply to the establishment and organizational structure of wholly state-owned companies. Any matter not covered by this Section shall be governed by the provisions of Sections 1 and 2 of this Chapter.

For the purpose of the Law, the term "wholly state-owned company" refers to a limited liability company solely invested in by the State and for which the State Council or the local people's government has authorized the state-owned assets supervision and administration institution of the people's government at the same level to act as capital contributor.

Article 65 The articles of association of a wholly state-owned company shall be formulated by the state-owned assets supervision and administration institution, or shall be drafted by the board of directors and submitted to the state-owned assets supervision and administration institution for approval.

Article 66 Wholly state-owned companies shall have no shareholders' meetings. The state-owned assets supervision and administration institution shall exercise the functions and powers of the shareholders' meeting. The state-owned assets supervision and administration institution may authorize the company's board of directors to exercise some of the functions and powers of the shareholders' meeting and decide important matters of the company, other than those relating to the combination, division or dissolution of the company, the increase or reduction of its registered capital or the issuance of corporate bonds, which must be decided by the state-owned assets supervision and administration institution. Specifically, the combination, division, dissolution or petition for bankruptcy of an important wholly state-owned company shall be examined by the state-owned assets supervision and administration institution and shall then be submitted to the people's government at the same level for approval.

For the purpose of the preceding paragraph, the term "important wholly state-owned company" shall be determined in accordance with the State Council's provisions.

Article 67 A wholly state-owned company shall have a board of directors, which shall exercise its functions and powers in accordance with Articles 46 and 66 of the Law. The term of office of its directors shall not exceed three years. The board of directors shall include employee representatives of the company.

The members of the board of directors shall be appointed by the state-owned assets supervision and administration institution, except for employee representatives, who shall be elected through the employee representatives' assembly of the company. The board of directors shall have a chairman and may have deputy chairmen.

The chairman and deputy chairmen shall be designated by the state-owned assets supervision and administration institution from among the members of the board of directors.

Article 68 A wholly state-owned company shall have a manager, who shall be appointed or dismissed by the board of directors. The manager shall exercise his functions and powers in accordance with Article 49 of the Law.

Subject to the consent of the state-owned assets supervision and administration institution, a member of the board of directors may concurrently hold the post of a manager.

Article 69 The chairman and deputy chairmen of the board of directors, directors and senior officers of a wholly state-owned company are prohibited from holding concurrent posts in other limited liability companies, joint stock limited companies or business entities unless with the consent of the state-owned assets supervision and administration institution.

Article 70 The board of supervisors of a wholly state-owned company shall comprise at least five members. Specifically, employee representatives shall constitute no less than one third, the specific proportion of which shall be prescribed by the company's articles of association.

Other than employee representatives who shall be elected through the employee representatives' assembly of the company, the members of the board of supervisors shall be appointed by the state-owned assets supervision and administration institution. The chairman of the board of supervisors shall be designated by the state-owned assets supervision and administration institution from among the members of the board of supervisors.

The board of supervisors shall exercise the functions and powers set out in Items 1 to 3 of Article 53 of the Law and any other function or power prescribed by the State Council.

Chapter III Transfer of Stock Rights in Limited Liability Companies

Article 71 Stock rights of the shareholders in a limited liability company may be transferred among the shareholders in whole or in part.

Where any shareholder proposes transferring his/its stock rights to any person other than the shareholders, any such proposal shall be subject to the consent of a majority of the other shareholders. The relevant shareholder shall give the other shareholders a written notice of the details of the proposed transfer of stock rights and seek their consent. Any of the other shareholders who fails to respond within 30 days upon receipt of the written notice shall be deemed to have consented to the transfer. Where

a majority of the other shareholders whose consent is sought disagree with the proposed transfer, the shareholders who disagree with the proposed transfer shall purchase the stock rights to be transferred. In the event that they refuse to purchase the stock rights in question, they shall be deemed to have consented to the transfer.

Under the same conditions, the other shareholders shall have the right of first refusal for the purchase of the stock rights to be transferred upon their consent. Where two or more shareholders exercise such a right of first refusal, they shall determine their respective purchase percentages by negotiation, failing which they shall exercise the right of first refusal in proportion to their respective capital contributions at the time of transfer.

Where there any provisions regarding the transfer of stock rights in the articles of association, such provisions shall prevail.

Article 72 Where a people's court transfers the stock rights of a shareholder pursuant to a mandatory enforcement procedure provided by law, it shall notify the company and all shareholders of the right of first refusal enjoyed by other shareholders under the same conditions. Any other shareholder's failure to exercise such a right of first refusal within 20 days upon receipt of a notice from the court shall be deemed as a waiver of the right of first refusal.

Article 73 Where any transfer of stock rights is made in accordance with Article 71 or 72 of the Law, the company shall cancel the capital contribution certificate of the original shareholder, issue a capital contribution certificate to the new shareholder and modify its records of shareholders and their capital contributions in the articles of association and register of members. No vote of the shareholders' meeting is required to modify the articles of association due to such a transfer of stock rights.

Article 74 Under any of the following circumstances, any shareholder who votes against the relevant resolution of the shareholders' meeting may require the company to purchase his/its stock rights at a reasonable price:

1. where the company has not distributed any profits to the shareholders for five consecutive years but has made profits during such period and conforms to the profit distribution requirements of the Law;
2. in the event of any combination, division, or transfer of the principal assets of the company; or
3. where the business term specified in the articles of association expires or any of the other grounds for dissolution prescribed in the articles of association is

satisfied, and the shareholders' meeting makes the company continue exist by modifying the articles of association through adopting a resolution.

Where the relevant shareholder and the company fail, within 60 days of the date on which the relevant resolution is adopted at the shareholders' meeting, to reach an agreement on the purchase of stock rights, the shareholder may initiate a legal action in the people's court within 90 days of the date on which the resolution is adopted at the shareholders' meeting.

Article 75 Unless otherwise provided for in the articles of association, the lawful successor of a natural person may assume the qualifications of shareholders following that person's death.

Chapter IV Establishment and Organizational Structure of a Joint Stock Limited Company

Section 1 Establishment

Article 76 A joint stock limited company shall:

1. have the minimum number of promoters required by law;
2. have total share capital or total paid-in capital subscribed for and raised by all promoters in compliance with the articles of association;
3. issue its shares and make preparations according to the law;
4. have its articles of association formulated by its promoters and adopted at the establishment meeting of the company in case of a joint stock limited company founded by stock floatation;
5. have a name and organization structure that complies with that of a joint stock limited company; and
6. have a corporate domicile.

Article 77 A joint stock limited company may be established either by way of promotion or by way of stock flotation.

Establishment of a company by way of promotion refers to that the promoters establish a company by subscribing for all the shares to be issued by the company. Establishment of a company by way of stock flotation refers to that the promoters establish a company by subscribing for some of the shares to be issued by the company and offer the remaining shares to the general public or to particular classes of investor.

Article 78 A joint stock limited company shall have no less than two and no more than 200 promoters, of whom a majority shall be domiciled within the territory of China.

Article 79 The promoters of a joint stock limited company shall carry out all necessary preliminary procedures relating to the establishment of the company.

The promoters shall conclude a promoters' agreement clarifying their respective rights and obligations during the course of establishing the company.

Article 80 Where a joint stock limited company is established by way of promotion, its registered capital shall be the total share capital subscribed for by all of its promoters as recorded in the company registration authority. No shares shall be offered to any other person before the shares subscribed for by the promoters are paid up. Where a joint stock limited company is established by way of stock flotation, its registered capital shall be the total paid-in capital as recorded in the company registration authority.

Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Article 81 The articles of association of a joint stock limited company shall specify the following matters:

1. the name and address of the company;
2. the business scope of the company;
3. the form of company establishment;
4. the total number of shares, the par value per share, and the amount of registered capital of the company;
5. the name of each promoter, the number of shares each promoter has subscribed for, and the form and date of capital contributions made;
6. the rules relating to the composition, functions and powers and rules of procedure of the board of directors;
7. the legal representative of the company;
8. the composition, functions and powers and rules of procedure of the board of supervisors;
9. the procedures for the distribution of company profits;
10. the grounds for dissolution of the company and liquidation procedures;
11. the procedures for issuing company notices or public announcements; and
12. any other matter deemed necessary by the general meeting of shareholders.

Article 82 The form of capital contributions made by promoters shall be governed by the provisions of Article 27 of the Law.

Article 83 Where a joint stock limited company is established by way of promotion, the promoters shall fully subscribe in writing for the shares and pay the corresponding capital provided for in its articles of association. In the case of capital contributions made with non-monetary assets, the promoters shall go through the relevant procedures for the transfer of property rights in accordance with the law.

Any promoter who fails to make capital contributions in accordance with the provisions of the preceding paragraph shall be liable for breach of contract in accordance with the promoters' agreement.

After promoters subscribe for all the capital contributions as provided for by the articles of association of the company, they shall elect the board of directors and the board of supervisors. The board of directors shall submit such documents as the articles of association and any other documents provided for by laws and administrative regulations to the company registration authority for registration of establishment.

Article 84 The promoters of a joint stock limited company established by way of stock flotation shall subscribe for no less than 35% of the total shares unless otherwise required by any law or administrative regulation.

Article 85 In any public offer of shares, the promoters shall issue a prospectus and prepare application for shares. The application for shares shall include the items listed in Article 86, and a subscriber shall indicate the number of and total consideration to be paid for the shares he subscribes for, and shall note his address and affix his signature or seal thereon. A subscriber shall pay for the number of shares he has subscribed for.

Article 86 Any prospectus issued shall be accompanied by the articles of association as formulated by the promoters and shall include the following details:

1. the number of shares subscribed for by the promoters;
2. the par value and issue price per share;
3. the total number of bear shares issued;
4. the purposes of proceeds;
5. the rights and obligations of subscribers; and
6. the offer period and a statement that subscribers may withdraw their subscriptions in the event that the offer is under-subscribed at the close of the offer period.

Article 87 A public offer of shares shall be underwritten by a lawfully established securities company and an underwriting agreement shall be concluded thereon.

Article 88 The promoters of any public offer of shares shall sign an agreement with a bank on the collection of payments for shares on behalf of the company. The receiving bank appointed shall receive and hold as agent payments made for shares in accordance with the agreement, issue receipts to subscribers who make payments, and shall be obliged to produce evidence demonstrating the receipt of payments to the relevant departments.

Article 89 Where full payment has been made for any public offer of shares, the subscriptions shall be verified and certified by a lawfully established capital verification institution. The promoters shall hold a company establishment meeting composed of the promoters and subscribers within 30 days of receipt of all subscriptions. In the event that shares offered to the public are not fully subscribed for within the offer period disclosed in the prospectus, or the promoters fail to hold an establishment meeting within 30 days of receipt of all subscriptions, the subscribers may require the promoters to refund their subscriptions and pay interest calculated at the bank deposit interest rate for the relevant period.

Article 90 The promoters shall notify each subscriber of or publicly announce the date of the establishment meeting no less than 15 days in advance of the establishment meeting. The establishment meeting may not be held unless promoters and subscribers representing a majority of the total shares attend. The establishment meeting shall:

1. deliberate the report on pre-establishment activities prepared by the promoters;
2. adopt the Articles of association;
3. elect members of the board of directors;
4. elect members of the board of supervisors;
5. verify expenses incurred in establishing the company;
6. verify the value of any asset contributed by the promoters by way of capital contribution; and
7. in the event of any force majeure or material change in operating conditions that may affect the establishment of the company, consider adopting a resolution not to establish the company.
8. Any resolution made at the establishment meeting on any of the matters described in the previous paragraph requires an affirmative vote passed by subscribers representing a majority of the votes of those attending the meeting.

Article 91 Promoters and subscribers shall not withdraw any share capital after they paid the stock capital or made contributions for setting off the stock capital unless the offer is not fully subscribed for within the offer period; the promoters fail to convene the establishment meeting within the relevant time limit, or the establishment meeting has resolved not to establish the company.

Article 92 The board of directors shall, within 30 days of the conclusion of the establishment meeting, submit the following documents to the company registration authority to apply for registration:

1. an application for company registration;
2. the minutes of the establishment meeting;
3. the articles of association;
4. a capital verification certificate;
5. the appointment documents and identification of the legal representative, directors and supervisors;
6. documents evidencing the legal person or natural person status of the promoters; and
7. proof of the corporate domicile.

A joint stock limited company established by way of stock flotation that makes a public offer of its stock shall, in addition to the documents referred to above, submit to the company registration authority the approval documents issued by the securities regulatory institution under the State Council.

Article 93 Following the establishment of a joint stock limited company, any promoter who fails to make full payment for capital contributions as stipulated in the articles of association shall pay the outstanding amount, failing which, other promoters shall be jointly and severally liable for the shortfall.

Following the establishment of a joint stock limited company, where it is found that the actual value of any non-financial asset used as a capital contribution for the establishment of the company is clearly lower than its value as stipulated in the articles of association, the promoter who made the capital contribution shall make up the shortfall, failing which, other promoters shall be jointly and severally liable for the shortfall.

Article 94 The promoters of a joint stock limited company shall be liable as follows:

1. in the event that the company is not established, the promoters shall be jointly and severally liable for the debts and expenses incurred in pre-establishment activities;
2. in the event that the company is not established, the promoters shall be jointly and severally liable for refunding the paid-in capital of the subscribers plus interest thereon calculated at the bank interest rate for the relevant period; and
3. where, in the course of establishing the company, its interests are damaged due to the negligence of the promoters, the promoters shall be liable to compensate the company.

Article 95 Where a limited liability company is changed into a joint stock limited company, the total amount of paid-in capital shall be no less than its net assets, and any offer of shares to the public for the purpose of increasing the capital of the company shall be made in accordance with the law.

Article 96 A joint stock limited company shall prepare and maintain on company premises its articles of association, register of members, corporate bond receipts, minutes of general meetings of shareholders, minutes of meetings of the board of directors, minutes of meetings of the board of supervisors, and financial reports.

Article 97 Shareholders shall be entitled to inspect the articles of association, register of members, corporate bond receipts, minutes of general meetings of shareholders, minutes of meetings of the board of directors, minutes of meetings of the board of supervisors, and financial reports, and may put forward proposals and raise questions about the business operations of the company.

Section 2 General Meeting of Shareholders

Article 98 The general meeting of shareholders (the "general meeting") of a joint stock limited company shall be comprised of all the shareholders. The general meeting shall govern the company and shall exercise its functions and powers in accordance with the Law.

Article 99 The provisions of the Paragraph 1 of Article 37 of the Law prescribing the functions and powers of the shareholders' meeting of a limited liability company shall apply to the general meeting of a joint stock limited company.

Article 100 A general meeting shall be held annually. Under any of the following circumstances, an interim general meeting shall be held within two months:

1. where the number of directors falls below two thirds of the minimum number of directors as required by the Law or as specified in the articles of association;
2. where the bad debts of the company reach one third of its total paid-in capital;
3. where it is requested by a shareholder who holds or by shareholders who together hold 10% or more of the company's shares;
4. where the board of directors deems necessary;
5. on the request of the board of supervisors; or
6. any other circumstances specified in the articles of association.

Article 101 A general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors. Where the chairman is unable or fails to perform his duties, the meeting shall be presided over by the deputy chairman of the board of directors. Where the deputy chairman of the board of directors is unable or fails to perform his duties, the meeting shall be presided over by a director nominated by a majority of the directors.

Where the board of directors is unable or fails to fulfill its obligations to convene a general meeting, the board of supervisors shall convene and preside over the meeting. Where the board of supervisors does not convene or preside over the meeting, a shareholder who holds or shareholders who together hold 10% or more of the company's shares for 90 consecutive days or more may convene and preside over the meeting on his or their own initiative.

Article 102 Shareholders shall be notified no less than 20 days in advance of a general meeting of the time and place of the meeting and the matters to be considered at the meeting. Shareholders shall be notified no less than 15 days in advance of an interim general meeting. Holders of bearer shares shall be notified by way of public announcement no less than 30 days in advance of any general meeting of the time and place of the meeting and the matters to be considered at the meeting. Any shareholder who holds or shareholders who together hold 3% or more of the shares of the company may put forward an interim proposal and submit to the board of directors for the proposal in writing ten days in advance of a general meeting. The board of directors shall notify other shareholders of the interim proposal within two days as of the receipt thereof and submit the proposal to the general meeting for consideration. Any interim proposal put forward shall fall within the purview of the general meeting and shall have clear discussion points and matters to be decided. The general meeting shall not make any resolution on any matter not listed in a notice as stipulated in either of the preceding two paragraphs.

Shares of holders of bearer shares who attend the general meeting shall be kept in the company during the period from five days prior to the meeting until the meeting is closed.

Article 103 Other than shares registered in the name of the company, which shall have no voting rights attached, each share shall have one vote at a general meeting. Any resolution proposed at a general meeting shall be adopted by an affirmative vote of shareholders representing a majority of the voting rights of shareholders present; however, provided that resolutions proposing any modification to the articles of association, or any increase or decrease of registered capital, or any resolution about any proposed combination, division, dissolution or transformation of the company shall be adopted by shareholders representing two thirds or more of the voting rights of shareholders present.

Article 104 The board of directors shall promptly call a general meeting to decide any important matter within the purview of the general meeting either in accordance with the Law or in accordance with the articles of association, such as any transfer of company assets, taking an assignment of any significant asset or acting as guarantor for any other person.

Article 105 The general meeting may adopt a cumulative voting system for the election of directors and supervisors pursuant to the articles of association or by way of a resolution made at its meeting.

For the purpose of the Law, the term "cumulative voting system" refers to a voting system whereby shareholders can multiply their voting rights by the number of candidates and cast their votes for one candidate for director or supervisor.

Article 106 A shareholder may appoint a proxy to attend a general meeting. The proxy appointed shall present a proxy form issued by the shareholder to the company and shall exercise his voting rights within the scope of his authorization.

Article 107 The general meeting shall take minutes of decisions made on matters discussed at its meetings. The chair of the meeting and directors present shall sign the minutes, which shall be retained together with a list of signatures of shareholders present and any powers of attorney in case of proxy.

Section 3 Board of Directors and Managers

Article 108 A joint stock limited company shall establish the board of directors, members of which shall range from five to 19.

The board of directors may include employee representatives. Employee representatives who serve as board directors shall be democratically elected through the employee representatives' assembly, the employees' assembly or otherwise. The provisions of Article 45 of the Law on the term of office of the directors of a limited liability company shall apply to the directors of a joint stock limited company.

The provisions of Article 46 of the Law on the functions and powers of the board of directors of a limited liability company shall apply to the board of directors of a joint stock limited company.

Article 109 The board of directors shall elect a chairman and may elect a deputy chairman. The chairman and deputy chairman shall be elected by a majority of directors.

The chairman of the board of directors shall call and preside over the meetings of the board of directors and monitor the implementation of resolutions of the board of directors. The deputy chairman shall assist the chairman in his responsibilities and shall perform the chairman's duties in the event that the chairman is unable or fails to perform his duties. Where the deputy chairman of the board of directors is unable or fails to perform his duties as described in this paragraph, a director nominated by a majority of directors shall perform those duties.

Article 110 The board of directors shall convene no less than two meetings per year and shall notify all directors and supervisors no less than ten days in advance of the meeting.

A proposal to hold an interim meeting of the board of directors may be put forward by shareholders representing one tenth or more of the voting rights, or by one third or more of the directors or supervisors. The chairman of the board of directors shall, within ten days of receiving such a proposal, call and preside over a meeting of the board of directors.

Where the board of directors holds an interim meeting, it may separately decide the method of and time limit applicable to notifications about meetings of the board of directors.

Article 111 No meeting of the board of directors may be held unless a majority of directors are present. Any board resolution shall be adopted by a majority of directors. Each director shall have one vote in any resolution put to a vote of the board of directors.

Article 112 Directors shall attend meetings of the board of directors in person. Where any director is unable to attend the meeting for any reason, he may issue a written

proxy appointing another director to attend the meeting on his behalf and stating the scope of his authorization.

The board of directors shall take minutes of decisions made on matters discussed at its meetings, which shall be signed by directors present.

Directors shall be responsible for resolutions of the board of directors. Where a resolution of the board of directors violates any law, administrative regulation, articles of association, or any resolution of the general meeting and causes any serious loss to the company, the directors who participated in adopting the resolution shall compensate the company. Where a director is proven to have raised an objection to the relevant resolution and his objection is recorded in the minutes, the director may be exempted from liability.

Article 113 A joint stock limited company shall have a manager, who shall be appointed or dismissed by the board of directors.

The provisions of Article 49 of the Law on the functions and powers of the manager of a limited liability company shall apply to the manager of a joint stock limited company.

Article 114 The board of directors of a company may appoint one of its members to serve concurrently as the manager of the company.

Article 115 No company may, either directly or via any of its subsidiaries, lend money to any of its directors, supervisors or senior officers.

Article 116 A Company shall regularly disclose the information about the remuneration it pays to its directors, supervisors and senior officers to its shareholders.

Section 4 Board of Supervisors

Article 117 A joint stock limited company shall have the board of supervisors comprised of no less than three members.

The board of supervisors shall include shareholders' representatives and an appropriate proportion of employee representatives. The proportion of employee representatives shall be specified in the articles of association but in any event shall account for no less than one third of the supervisors appointed. Employee representatives who serve as members of the board of supervisors shall be democratically elected through the employee representatives' assembly, the employees' assembly or otherwise.

The board of supervisors shall have one chairman and may have a deputy chairman. The chairman and deputy chairman shall be elected by a majority of supervisors. The chairman of the board of supervisors shall call and preside over meetings of the board of supervisors. Where the chairman of the board of supervisors is unable or fails to perform his duties, the deputy chairman of the board of supervisors shall call and preside over meetings of the board of supervisors. Where the deputy chairman of the board of supervisors is unable or fails to perform his duties, a supervisor nominated by a majority of supervisors shall call and preside over meetings of the board of supervisors.

No director or senior officer of a company may concurrently act as one of its supervisors.

The provisions of Article 52 of the Law on the term of office of the supervisors of a limited liability company shall apply to the supervisors of a joint stock limited company.

Article 118 The provisions of Articles 53 and 54 of the Law on the functions and powers of the board of supervisors of a limited liability company shall apply to the board of supervisors of a joint stock limited company.

All necessary expenses incurred by the board of supervisors in exercising its functions and powers shall be borne by the company.

Article 119 The board of supervisors shall hold no less than one meeting every six months. The supervisors may propose an interim meeting of the board of supervisors. Unless otherwise specified in the Law, the methods of deliberation and voting procedures of the board of supervisors shall be specified in the articles of association. A resolution of the board of supervisors shall be passed by a majority of supervisors. The board of supervisors shall take minutes of decisions made on matters discussed at its meetings, which shall be signed by all supervisors present.

Section 5 Special Provisions on the Organizational Structure of a Listed Company

Article 120 For the purpose of the Law, the term "listed company" refers to any joint stock limited company whose shares are listed and traded on a stock exchange.

Article 121 Where a listed company purchases or sells any important asset or provides a guaranty for any amount exceeding 30% of its total assets such a transaction shall be subject to a resolution of the general meeting passed by shareholders representing two thirds of the voting rights of shareholders present.

Article 122 A listed company shall have independent directors, who shall be subject to any specific measures of the State Council.

Article 123 A listed company may have a secretary to the board of directors, who shall be responsible for preparing for general meetings and meetings of the board of directors, the preservation of documents, the management of shareholders' materials, information disclosure, and similar duties.

Article 124 Where any director of a listed company is affiliated with any enterprise involved in a matter on which a resolution is to be made at a meeting of the board of directors, he shall not exercise his voting right on the resolution either on his own behalf or on behalf of any other director. Such a meeting of the board of directors may be held with the attendance of a majority of unaffiliated directors, and any resolution made at the meeting of the board of directors shall be subject to adoption by a majority of unaffiliated directors. Where less than three unaffiliated directors are present at the meeting of the board of directors, the matter shall be submitted to the listed company's general meeting for deliberation.

Chapter V Issuance and Transfer of Shares in a Joint Stock Limited Company

Section 1 Issuance of Shares

Article 125 The capital of a joint stock limited company shall be divided into shares of equal value.

The shares of a company shall be represented by share certificates. A share certificate issued by the company shall certify ownership of one or more shares by a shareholder.

Article 126 Any issuance of shares shall be conducted with fairness and impartiality.

Shares of the same class shall have the same rights and benefits. Shares of the same class issued at the same time shall be issued at the same price and shall be subject to the same conditions. The price of shares purchased by any organization or individual shall be the same.

Article 127 Shares may be issued at a price equal to or at a premium to their par value, but shall not be issued at a price below par value.

Article 128 Share certificates shall be issued in certificated form or any other form prescribed by the securities regulatory institution under the State Council. Share certificates shall state the following principal details:

1. the company name;

2. the date of incorporation of the company;
3. the class and par value of the share certificate, and the number of shares it represents; and
4. the serial number of the share certificate.

Share certificates shall bear the signature of the legal representative and the seal of the company.

Share certificates held by promoters shall be inscribed with the words "promoters' share certificate".

Article 129 Share certificates issued by a company may be in registered form or bearer form.

Share certificates issued by a company to promoters or legal persons shall be in registered form, shall state the relevant name of the promoter or legal person, and shall not be registered in the name of any other person or in the name of any representative thereof.

Article 130 Any company that issues share certificates in registered form shall prepare a register of members, which shall record the following matters:

1. the name and address of each shareholder;
2. the number of shares held by each shareholder;
3. the serial numbers of share certificates held by each shareholder; and
4. the date on which each shareholder acquired his shares.

Any company that issues share certificates in bearer form shall record the amount, serial numbers and date of issuance of the share certificate.

Article 131 The State Council may separately make provisions on enterprises' offering of stocks other than those as stipulated by this Law.

Article 132 A joint stock limited company shall formally deliver share certificates to its shareholders following its establishment and no share certificate shall be delivered to its shareholders before such establishment.

Article 133 For any company that proposes to issue new shares, a resolution on the following matters shall be made by its general meeting:

1. the class and number of new shares to be issued;
2. the issue price of the new shares;
3. the offering period for the new shares; and
4. the class and amount of new shares to be issued to the existing shareholders.

Article 134 Where any company offers new shares to the public upon the approval of the securities regulatory institution under the State Council, it shall issue a new share prospectus and financial reports, and shall produce an application for shares. The provisions of Articles 87 and 88 of the Law shall apply to any public offer of new company shares.

Article 135 A company that issues new shares may set the offer price according to its business operations and financial status.

Article 136 Any company that successfully completes a new offer of shares shall amend its registered details maintained by the company registration authority and make a public announcement thereon.

Section 2 Transfer of Shares

Article 137 Shareholders may transfer their shares in accordance with the law.

Article 138 Any transfer of shares by a shareholder shall be carried out via a lawfully established stock exchange or by any other means prescribed by the State Council.

Article 139 A transfer of registered stock shall be effected by way of a shareholder's endorsement or by any other means prescribed by the relevant laws or administrative regulations. Following any transfer, the company shall record the name and address of the transferee in the register of members.

The register of members may not be modified within the 20 days preceding any general meeting or within five days preceding any ex-dividend date fixed by the company. Any law that provides otherwise in relation to the amendment of details recorded in the register of members of a listed company shall prevail over the provisions of this Article.

Article 140 Any transfer of stock issued in bearer form shall take effect immediately on delivery of the share certificate to the transferee by the transferor.

Article 141 Company shares held by the promoters of the company shall not be transferred within one year of the date of incorporation of the company. Shares issued prior to any public offer of shares shall not be transferred within one year of the date on which the shares of the company are first listed and traded on a stock exchange. Directors, supervisors and senior officers of a company shall notify the company of the shares they hold and any changes therein. During their respective terms of office, any shares transferred by any of the company's directors, supervisors and senior officers in any year shall not exceed 25% of the relevant individual's total stake in the company. Company shares held by any director, supervisor or senior officer shall not be

transferred within one year of the date on which the shares are first listed and traded on a stock exchange. Any of the aforesaid persons who ceases to hold his post shall not transfer any of his shares within six months of the date on which he ceased to hold his post. Any other restrictions on transfers of shares held by directors, supervisors and senior officers may be specified in the articles of association.

Article 142 No company shall purchase its own shares other than in any of the following circumstances:

1. where a company reduces its registered capital;
2. where the company plans to merge with a company which is one of its existing shareholders;
3. where its shares are used for employee stock ownership plan or stock ownership incentive scheme;
4. where any shareholder requests the company to purchase his/her shares because of his/her objection to any company resolution concerning a combination or division of the company made at any general meeting;
5. where its shares are used to convert corporate bonds issued by a listed company that can be converted into stocks; or
6. Where it is necessary for a listed company to maintain its corporate value and stockholders' equity.

Any company's purchase of its own shares for any reason specified in Items 1 and 2 of the preceding paragraph shall be subject to a resolution of the general meeting; any company's purchase of its own shares for any reason specified in Items 3, 5 and 6 of the preceding paragraph may be subject to a resolution of the board meeting with more than two thirds of directors present, according to the provisions of the Articles of Associations or upon authorization by the general meeting.

Following any company's purchase of its own shares pursuant to the first paragraph of this Article, the company shall, in the event of a purchase made pursuant to Item 1, cancel the relevant shares within ten days of the purchase, or in the event of a purchase made pursuant to Item 2 or 4, transfer or cancel the relevant shares within six months of the purchase, or in the event of a purchase made pursuant to Item 3, 5 or 6, hold a total number of its own shares not more than 10% of the total shares issued by the company and transfer or cancel the relevant shares within three years of the purchase.

Any company that purchases its own shares shall perform the information disclosures obligations specified in the Securities Law of the People's Republic of China. Any

purchase of its own shares by a listed company in the event of Item 3, 5, or 6 of the first paragraph of this Article shall be made by way of a public centralized trading. No company may take a pledge of its own stock.

Article 143 Where any registered stock is stolen, lost or destroyed, the relevant shareholder may request the people's court to declare the stock invalid in accordance with the public notification procedure prescribed in the Civil Procedure Law of the People's Republic of China. Where the people's court invalidates stock pursuant to this procedure, the relevant shareholder may file an application with the company for the issuance of new stock.

Article 144 The shares of a listed company shall be listed and traded in accordance with relevant laws, administrative regulations, and with the dealing rules of the stock exchange on which they are listed and traded.

Article 145 A listed company shall, in accordance with laws and administrative regulations, publicly announce matters relating to its financial status, business operations and any significant litigation to which it is a party, and shall publish its financial reports once in every six month period in each financial year.

Chapter VI Qualifications and Duties of Company Directors, Supervisors and Senior Officers

Article 146 None of the following people shall be eligible for appointment as a director, supervisor or senior officer of a company:

1. any person who does not have civil capacity or who has limited civil capacity;
2. any person who has been convicted of any criminal offence in the nature of corruption, bribery, disseizing, misappropriation or disrupting the economic order of the socialist market and five years have not elapsed since any penalty imposed has been completed, or any person who has ever been deprived of his political rights due to any crime and five years have not elapsed since the penalty imposed was completed;
3. any former director, factory director or manager of a company or enterprise which has been declared bankrupt and liquidated in circumstances where he was personally responsible for the bankruptcy of the company or enterprise, and three years have not elapsed since the bankruptcy and liquidation of the company or enterprise was completed;
4. any former legal representative of a company or enterprise which has had its business license revoked and has been ordered to close its business

operations due to any violation of law in circumstances where the former legal representative was personally liable for the revocation of the business license and three years have not elapsed since the date of revocation; or

5. any person who has significant unpaid due debts.

Any election or appointment of any director, supervisor, or senior officer made in violation of the provisions of this Article shall be invalid.

Any existing director, supervisor or senior officer the appointment of whom would violate the provisions of this Article shall be removed from his post.

Article 147 The directors, supervisors and senior officers of a company shall comply with laws, administrative regulations, and the articles of association and shall owe duties of fidelity and due diligence to the company.

No director, supervisor or senior officer may take any bribe or other illegal gain by taking advantage of his position or misappropriate company assets for personal use.

Article 148 No director or senior officer may:

1. misappropriate company funds;
2. divert company funds into an account held in his own name or in the name of any other individual;
3. loan company funds or provide any guaranty to any other person by using company property in violation of the articles of association without first obtaining the consent of the shareholders' meeting, the general meeting of shareholders or the board of directors;
4. become a party to any contract or business dealings with the company in violation of the articles of association without first obtaining the consent of the shareholders' meeting or the general meeting of shareholders;
5. seek business opportunities for himself or for any other person by taking advantage of his position, or operate on his own behalf or on behalf of any other person any business similar in nature to that of the company, without first obtaining the consent of the shareholders' meeting or the general meeting of shareholders;
6. personally accept any commission on any transaction to which the company is a party;
7. unlawfully disclose confidential company information; or
8. act in any way that is inconsistent with his duty of fidelity to the company.

Any income received by any director or senior officer in violation of this Article shall be treated as the property of the company.

Article 149 Where any director, supervisor or senior officer violates any law, administrative regulation, or the articles of association in the course of performing his duties, he shall be liable to compensate the company for any loss thereby caused to the company.

Article 150 Where the shareholders' meeting or the general meeting of shareholders requires any director, supervisor or senior officer to attend the meeting as a non-voting attendee, he shall do so and shall answer the shareholders' inquiries. Directors and senior officers shall faithfully provide relevant information and materials to the board of supervisors or to the supervisor(s) of a limited liability company with no board of supervisors, and may not obstruct the board of supervisors or any supervisor in the exercise of its or his functions and powers.

Article 151 Where a director or senior officer falls into the circumstance as specified in Article 149 of the Law, any shareholder or group of shareholders of the limited liability company or joint stock limited company concerned who has or have held 1% or more of the shares in the company for 180 consecutive days or more may make a written request to the board of supervisors or to the supervisor(s) of a limited liability company with no board of supervisors to initiate a legal action in the people's court against the relevant director or senior officer. Where any supervisor falls into the circumstance as specified in Article 149 of the Law, the aforesaid shareholder(s) may make a written request to the board of directors or to the acting director of a limited liability company with no board of directors to initiate a legal action in the people's court. Where any board of supervisors, any supervisor of a limited liability company with no board of supervisors, or any board of directors or acting director refuses to initiate a legal action after receiving a written request described in the preceding paragraph, or fails to initiate a legal action within 30 days of receiving the request, or if, in the event of any urgent situation in which failing to initiate a legal action forthwith will cause irreparable damage to the interests of the company, the shareholder(s) described in the preceding paragraph may initiate a legal action in the people's court in his or their own name(s).

Where the legitimate rights and interests of a company are damaged and the company thereby suffers any loss, the shareholder(s) described in Paragraph 1 of this Article

may initiate a legal action in the people's court in accordance with the provisions of the preceding two paragraphs.

Article 152 Where any director or senior officer damages the shareholders' interests by violating any law, administrative regulation, or the articles of association, the shareholders may initiate a legal action in the people's court.

Chapter VII Corporate Bonds

Article 153 For the purpose of the Law, the term "corporate bonds" refers to negotiable securities issued by a company under the relevant statutory procedures with guaranteed payment of principal and interest by a specified future date or dates. Any company that issues corporate bonds shall satisfy the issuance requirements specified in the Securities Law of the People's Republic of China.

Article 154 Following the approval of any application to issue corporate bonds by the department authorized by the State Council, the issuing company shall publish an offering circular which shall include the following key information:

1. the company name;
2. the purpose(s) for which the proceeds of the corporate bond issue will be used;
3. the total amount of corporate bonds to be issued and the par value thereof;
4. the method for determining the coupon rate of the bonds;
5. the maturity date and the method for principal and coupon payments;
6. the terms of any bond guaranty;
7. the issue price of the bonds and the offer period;
8. the net assets of the company;
9. the total amount of the company's corporate bonds outstanding; and
10. the underwriters of the corporate bonds.

Article 155 Any bonds issued by a company in certificated form shall state the company's name, the par value, the coupon rate, the maturity date and similar details, and shall bear the signature of the legal representative of the company and the company seal.

Article 156 Corporate bonds may be issued in registered or bearer form.

Article 157 Any company that issues corporate bonds shall maintain a corporate bond stub.

The stub for any registered corporate bond shall state:

1. the name and address of the bondholder;
2. the date on which the bondholder acquired the bond and the serial number of the bond;
3. the total face value of the bond, par value, coupon rate, maturity date and method for payments of principal and coupon; and
4. the date on which the bond was issued.

The stub for any corporate bond issued in bearer form shall state the total face value of the bond, the coupon rate, the maturity date and payment method, the issue date and the serial number of the bond.

Article 158 The registration and settlement institution for registered corporate bonds shall establish rules on the registration, custody, and acceptance of bonds, and on the payment of coupons.

Article 159 Corporate bonds may be transferred. The transfer price shall be negotiated by the transferor and the transferee.

Any transfer of corporate bonds which are listed and traded on a stock exchange shall be carried out in accordance with the dealing rules of the stock exchange.

Article 160 Any transfer of registered corporate bonds shall be effected by the bondholder's endorsement or by any other method prescribed in the relevant laws and administrative regulations, and after such transfer, the company shall record the transferee's name and address on the corporate bond stub.

Any transfer of unregistered corporate bonds shall take effect when the bondholder delivers the bonds to the transferee.

Article 161 A listed company may, pursuant to a resolution of the general meeting, issue convertible bonds on terms specified in the corporate bond offering circular.

To issue convertible bonds, a listed company shall file an application with the securities regulatory institution under the State Council for examination and approval.

Convertible bonds shall be inscribed with the words "convertible bonds" and the number of convertible bonds issued shall be specified in the corporate bond stub.

Article 162 Any company that issues convertible bonds shall exchange its shares for convertible bonds held by bondholders in accordance with the conversion formula prescribed, provided that bondholders shall in any event retain an option to convert their bonds.

Chapter VIII Financial Affairs and Accounting of Companies

Article 163 A company shall establish its financial and accounting policies in accordance with laws, administrative regulations, and the provisions of the finance department under the State Council.

Article 164 A company shall, at the end of each financial year, prepare a financial report and have it audited by an accounting firm.

The financial report shall be prepared in accordance with laws, administrative regulations, and the provisions of the finance department under the State Council.

Article 165 A limited liability company shall submit its financial report to each shareholder within the time limit prescribed in the articles of association. The financial report of a joint stock limited company shall be prepared for inspection by shareholders at the offices of the company 20 days in advance of the date on which the annual general meeting is held. A joint stock limited company that has offered its shares to the public shall publicize its financial report.

Article 166 Where a company distributes its after-tax profits for the current financial year, it shall draw 10% of its profits as the company's statutory common reserve, provided that a company with an aggregate common reserve of more than 50% of the company's registered capital may elect not to draw any statutory common reserve any more.

Where the aggregate balance of the company's statutory common reserve is insufficient to cover any loss the company made in the previous financial year, the current financial year's profits shall first be used to cover the loss before any statutory common reserve is drawn therefrom in accordance with the provisions of the preceding paragraph.

Where any company has drawn a statutory common reserve from its after-tax profits, it may, subject to a resolution of the shareholders' meeting or the general meeting of shareholders, draw a discretionary common reserve from its after-tax profits. Where losses have been covered and the statutory and discretionary common reserves have been drawn, any remaining after-tax profits shall be distributed to shareholders in accordance with Article 34 of the Law in case of a limited liability company or on a pro rata basis in case of a joint stock limited company, unless its articles of association provides distribution shall not be made on a pro rata basis. Where the shareholders' meeting, general meeting of shareholders or board of

directors distributes profits in violation of the provisions of the preceding paragraph before losses are covered and the statutory common reserve is drawn, the profits distributed must be returned to the company.

No profit may be distributed for shares held by the company itself.

Article 167 Any stock premium received by a joint stock limited company from the issuance of stock at a premium to par and any other income to be included in the capital reserve account under any relevant provisions of the finance department under the State Council shall be recorded as the company's capital reserve.

Article 168 A company's common reserves shall be used to cover losses made in past years, to enhance the company's productivity and expand its business or to increase its registered capital; however a company's capital reserve shall not be used to cover the company's losses.

Where the statutory common reserve is converted into capital, the value of the remaining common reserve shall be no less than 25% of the company's registered capital prior to the conversion.

Article 169 Any proposed appointment or dismissal of an accounting firm as the company's auditor shall be subject to a resolution of the shareholders' meeting, the general meeting of shareholders or the board of directors in accordance with the provisions of the articles of association.

Any shareholders' meeting, general meeting of shareholders or meeting of the board of directors that votes to dismiss any accounting firm as its auditor shall allow the accounting firm to express its own opinions.

Article 170 A company shall provide the accounting firm appointed as its auditor with accurate and complete accounting documents and books, financial reports, and other accounting information, and may not refuse to do so or conceal any such accounting records or make any false statement to its auditor.

Article 171 A company shall not maintain any set of accounts that differs from its statutory accounting books.

No company assets may be held in any account opened in the name of any individual.

Chapter IX Corporate Combination and Division; Increase and Reduction of Registered Capital

Article 172 A corporate combination may be effected by merger or consolidation. In the case of a merger, one company absorbs another company and the company that has been absorbed is dissolved; in case of a consolidation, two or more companies combine to establish a new company, and the existing companies are dissolved.

Article 173 To carry out a corporate combination, parties to the combination shall conclude an agreement with each other and formulate balance sheets and schedules of assets. The parties to a combination shall, within ten days of making the resolution on combination, notify their respective creditors and, within 30 days, make a public announcement in a newspaper. Any creditor may, within 30 days of receiving the said notice or, in the event that the creditor does not receive such a notice, within 45 days as of the issuance of the said public announcement, require the company to repay its debts in full or to provide a corresponding guaranty.

Article 174 In any corporate combination, the claims and debts of the parties to the combination shall be succeeded by the company that survives the combination, or by the newly-established company in case of a consolidation.

Article 175 In a corporate division, the assets of any company shall be divided accordingly.

To enable a division to proceed, balance sheets and schedules of assets shall be formulated. The company shall inform its creditors within ten days of the date on which the decision to proceed with the division is made, and shall make a public announcement about the division proposal in a newspaper within 30 days of the date on which the decision to proceed with the division is made.

Article 176 Unless otherwise agreed by the company and its creditors in any written agreement regarding the repayment of company debts concluded prior to any division, the companies that result from the division shall be jointly and severally liable for the existing debts of the company.

Article 177 Where a company finds it necessary to reduce its registered capital, it must prepare its balance sheet and schedule of assets.

The company shall, within ten days of the date on which it decides to reduce its registered capital, notify its creditors and make a public announcement about the proposed reduction in capital in a newspaper within 30 days of the date on which it decides to reduce its registered capital. Any creditor shall, within 30 days of receipt of such a notice or, where it does not receive a notice, within 45 days of the date of the

public announcement, be entitled to require the company to repay its debt in full or to provide a corresponding guaranty.

Article 178 Where a limited liability company increases its registered capital, the subscription by shareholders for the amount of the increase shall be governed by the relevant provisions of the Law regarding capital contributions in the establishment of a limited liability company.

Where a joint stock limited company issues new stock to increase its registered capital, shareholder subscriptions for new stock shall be governed by the relevant provisions of the Law regarding stock purchases in the establishment of a joint stock limited company.

Article 179 Where, as a result of any corporate combination or division to which a company is a party, any of the company's registered details change, the company shall amend its registered details with the company registration authority. In the event that any company that is a party to a combination or division is dissolved, it shall be deregistered in accordance with the law. In the event that any new company results from any combination or division, it shall comply with the procedures for establishment of a company as provided by law.

Where a company increases or reduces its registered capital, the company shall handle relevant procedures for change with the company's registration authority in accordance with the law.

Chapter X Company Dissolutions and Liquidations

Article 180 A company may be dissolved where:

1. its term of business operation as prescribed in the articles of association expires or any dissolution event as prescribed in the articles of association of the company occurs;
2. the shareholders' meeting or the general meeting of shareholders resolves to dissolve the company;
3. dissolution of the company is necessary due to any combination or division to which the company is a party;
4. its business license is revoked or it is ordered to close down or be dissolved in accordance with the law; or
5. the people's court makes an order for dissolution of the company in accordance with Article 183 of the Law.

Article 181 Where any of the circumstances prescribed in Item 1 of Article 180 of the Law occurs, a company may nevertheless continue in existence by amending its articles of association.

Any amendment to the articles of association in accordance with the provisions of the preceding paragraph shall be subject to the consent of shareholders representing two thirds or more of the voting rights in case of a limited liability company, or to the consent of two thirds or more of the voting rights of shareholders who attend the relevant general meeting in case of a joint stock limited company.

Article 182 Where any company encounters serious difficulties in its operations or management that will lead to significant shareholder losses if they persist and the situation cannot be resolved by any other means, shareholders representing 10% or more of the voting rights of all shareholders may petition the people's court to dissolve the company.

Article 183 Where any company is dissolved in accordance with the provisions of Item 1, 2, 4, or 5 of Article 180 of the Law, a liquidation group shall be formed within fifteen days of the date on which the circumstances leading to the dissolution of the company occurred in order to effect the liquidation. The liquidation group of a limited liability company shall be comprised of its shareholders, while that of a joint stock limited company shall be comprised of its directors or any other individuals appointed by the general meeting of shareholders. Where a liquidation group is not formed within the time limit specified, the company's creditors may petition the people's court to appoint appropriate individuals to form a liquidation group. The people's court shall approve such a petition and form a liquidation group in order to liquidate the company in a timely manner.

Article 184 A liquidation group shall exercise the following functions and powers during the course of the liquidation:

1. liquidate the company's assets and produce a balance sheet and schedule of assets;
2. notify the company's creditors by way of notice or public announcement;
3. manage and clear the remaining business of the company;
4. pay outstanding taxes and any tax liability incurred in the course of the liquidation;
5. pay the company's accounts payable and recover its accounts receivable;
6. dispose of the company's residual assets; and
7. represent the company in any civil litigation to which it is a party.

Article 185 A liquidation group shall, within ten days of its formation, notify the company's creditors of its formation, and shall make a public announcement in a newspaper on the formation of a liquidation group within 60 days of its formation. Any creditor shall, within 30 days of receipt of a notice or within 45 days of the public announcement in the event that the relevant creditor does not receive a notice, make a claim to the liquidation group on the debt owed to it/him.

In making a claim for any debt outstanding, a creditor shall describe the relevant details and provide supporting evidence. The liquidation group shall record all debts claimed. The liquidation group may not repay any creditor during the debt claim period.

Article 186 A liquidation group shall, after liquidating the assets of the company and producing a balance sheet and schedule of assets, draft a liquidation plan and present it to the shareholders' meeting or the general meeting of shareholders or to the people's court for confirmation.

Any remaining assets after payment of liquidation expenses, employee wages, social insurance premiums and statutory indemnity premiums, outstanding taxes and outstanding debts may, in case of a limited liability company, be distributed to shareholders on a pro rata basis in accordance with the respective proportion of capital contributed by each shareholder or, in case of a joint stock limited company, distributed on a pro rata basis in accordance with the respective proportion of stock held by each shareholder.

A company in liquidation shall continue in existence during the course of the liquidation but may not conduct any new business unconnected with the liquidation. No company assets may be distributed to any shareholder before being applied as described in the previous paragraph.

Article 187 Where, after liquidating the assets of a company and formulating a balance sheet and schedule of assets, a liquidation group finds that the company's assets are insufficient to meet its obligations in full, it shall file a bankruptcy petition with the people's court.

Where the people's court declares the company bankrupt, the liquidation group shall hand over administration of the liquidation to the people's court.

Article 188 On completion of any company liquidation, the liquidation group shall draft a liquidation report and submit it to the shareholders' meeting or the general meeting of shareholders or to the people's court for confirmation, and shall submit it to the company registration authority to apply for the cancellation of the registration of the

company. The liquidation group shall also make a public announcement about the fact that the company has been terminated.

Article 189 The members of a liquidation group shall, during the course of liquidation, carry out their duties and perform their obligations in accordance with the law.

No member of a liquidation group may take advantage of his position to take any bribe or any other unlawful payment, nor may he misappropriate any company asset. Any member of a liquidation group who causes any loss to the company or to any of its creditors either intentionally or due to his gross negligence shall be liable to compensate the affected party.

Article 190 Any company adjudicated bankrupt in accordance with the law shall be liquidated in bankruptcy in accordance with the relevant laws on bankruptcy.

Chapter XI Branches of Foreign Companies

Article 191 For the purpose of the Law, the term "foreign company" refers to a company established outside the territory of China under any foreign law.

Article 192 Any foreign company that plans to establish a branch within the territory of China shall submit an application with the competent authority in China and shall submit supporting documents such as its articles of incorporation, its certificate of incorporation as issued in its country of domicile, and similar documents, and after the approval, shall handle relevant registration procedures with the company registration authority in accordance with the law, and obtain a business license. The measures for the examination and approval of branches of foreign companies shall be separately formulated by the State Council.

Article 193 Where a foreign company establishes any branch within the territory of China, it must designate a representative or agent within the territory of China to take charge of the branch, and shall allocate to the branch funds commensurate with the business activities it engages in.

Where a minimum operating funds is required for any branch of a foreign company, it shall be otherwise provided by the State Council.

Article 194 The name of any branch of a foreign company shall indicate its country of domicile and its form of legal liability.

Any branch of a foreign company shall make its articles of incorporation available at its place of business.

Article 195 No branch of a foreign company established within the territory of China shall have the status of a legal person.

A foreign company shall bear civil liability for business operations of its branches carried on within the territory of China.

Article 196 Branches of foreign companies which are approved to be established shall abide by the laws of China in pursuing business activities carried on within the territory of China and may not injure the social or public interests of China. The legitimate rights and interests of branches of foreign companies shall be protected by Chinese law.

Article 197 Any foreign company that closes down any of its branches within the territory of China must pay the branch's debts in full in accordance with the law and shall liquidate the branch in accordance with the provisions of the Law on the procedures for the liquidation of a company. No branch of a foreign company established in China may transfer any of its assets out of China before first paying its outstanding debts in full.

Chapter XII Legal Liability

Article 198 Any person who, in the course of registering a company, misstates its registered capital, submits false documentation or uses any other fraudulent means in order to conceal any important fact shall be ordered by the company registration authority to remedy the defect. Where the registered capital of a company is misstated, the person responsible shall be fined between 5% and 15% of the amount by which the registered capital was misstated; where false documentation is submitted or where any other fraudulent means is used in order to conceal any important fact, the person responsible shall be fined between CNY50,000 and CNY500,000; where the circumstances are serious, the company's registration certificate or business license shall be revoked.

Article 199 Any promoter or shareholder of a company who makes any fraudulent capital contribution or fails to deliver or fails to promptly deliver the money or non-monetary assets to be used as a capital contribution shall be ordered by the company registration authority to remedy the defect and shall be fined between 5% and 15% of the purported value of the fraudulent capital contribution.

Article 200 Any promoter or shareholder who unlawfully withdraws his capital contribution after the company is incorporated shall be ordered by the company

registration authority to remedy the defect and shall be fined between 5% and 15% of the capital contribution unlawfully withdrawn.

Article 201 Any company that maintains any set of accounts that differs from its statutory accounting books in violation of the Law shall be ordered by the finance department of the people's government at the county level or above to remedy the defect and shall be fined between CNY50,000 and CNY500,000.

Article 202 Where a company falsifies records or conceals any important matter in materials such as financial reports submitted to relevant government departments, the relevant government department shall impose a fine of between CNY30,000 and CNY300,000 on the directly responsible person or other persons directly liable.

Article 203 Any company that fails to draw a statutory common reserve in accordance with the Law shall be ordered by the finance department of the people's government at the county level or above to draw the required amount and may be fined up to CNY200,000.

Article 204 Any company that fails to make any notification to its creditors by way of notice or by way of public announcement of any combination, division, reduction of its registered capital or liquidation shall be ordered by the company registration authority to remedy the defect and may be fined between CNY10,000 and CNY100,000.

Where, in the course of any liquidation, any company conceals any of its assets or makes any false entry in its balance sheet or schedule of assets or distributes any of the company's assets before repaying its outstanding debts in full, it shall be ordered by the company registration authority to remedy the defect and may be fined between 5% and 10% of the value of company assets it has concealed or distributed prior to paying the company's outstanding debts in full, and the directly responsible person or other persons directly liable may be fined between CNY10,000 and CNY100,000.

Article 205 Any company that, in the course of any liquidation, carries on any business activity unconnected with the liquidation shall be reprimanded by the company registration authority and any unlawful proceeds shall be confiscated.

Article 206 Any liquidation group that fails to submit a liquidation report to the company registration authority in accordance with the provisions of the Law or conceals or omits any important fact in or from the liquidation report submitted shall be ordered by the company registration authority to remedy the defect.

Any member of a liquidation group who takes advantage of his position to seek any unlawful personal benefit either for himself or on behalf of any of his relatives or who

procures any unlawful gain or who misappropriates any of the company's assets shall be ordered by the company registration authority to return any company assets and confiscate any unlawful benefits or gains as appropriate, and shall be fined between one and five times the value of the assets, benefits or gains unlawfully derived.

Article 207 Where any institution that undertakes an appraisal or verification of assets or a verification of certificates provides any false materials, it shall have its unlawful proceeds confiscated by the company registration authority, shall be fined between one and five times the value of any proceeds unlawfully gained, may be ordered by the competent administrative department to suspend its business operations or to cancel the qualification certificate(s) of the person or persons directly liable, and shall have its business license revoked.

Where any institution that undertakes the appraisal or verification of assets or a verification of certificates omits any important matter from the report it submits, it shall be ordered by the company registration authority to remedy the defect; where the circumstances are serious, it shall be fined between one and five times the value of any proceeds unlawfully obtained thereby, and may be ordered by the competent administrative department to suspend its business operations, to cancel the qualification certificate(s) of the person or persons directly liable, and may have its business license revoked.

Where any institution that undertakes an appraisal or verification of assets or a verification of certificates provides an appraisal result or proof of asset verification or certificate verification that is subsequently proven to be inaccurate, causing any loss to the creditors of the company, it shall be liable to compensate the creditors for the difference between the appraised or verified amount and the value at which the assets etc. should have been accurately appraised or verified, unless it is able to demonstrate that the inaccurate appraisal or verification did not contribute to any loss suffered.

Article 208 Where any company registration authority registers any application that does not meet the conditions prescribed in the Law or refuse any application which meets the conditions prescribed in the Law, the directly responsible person or other persons directly liable shall be subject to an administrative sanction.

Article 209 Where any company registration authority is required by its superior government department to register any application that does not meet the conditions prescribed in the Law or to refuse any application that meets the conditions prescribed in the Law or to suppress information relating to any unlawful registration, the directly

responsible person or other persons directly liable shall be subject to an administrative sanction in accordance with the law.

Article 210 Any person who carries on business operations in the name of a limited liability company or joint stock limited company without registering as a limited liability company or joint stock limited company in accordance with the law or who carries on business operations in the name of a subsidiary of any limited liability company or joint stock limited company without registering as a subsidiary of any limited liability company or joint stock limited company in accordance with the law shall be ordered by the company registration authority to remedy the defect or be subject to its enforcement procedures, and may be fined up to CNY100,000.

Article 211 Any company that fails to commence business operations within six months of incorporation without reasonable justification or that suspends its business operations of its own volition for a period of six months or more after it has commenced business operations shall be liable to have its business license revoked by the company registration authority.

Any company that fails to handle relevant procedures for registration of change in accordance with the Law following any change in the company's registered details shall be ordered by the company registration authority to amend its registration within a specific period of time; if it still fails to make the required amendment, it shall be fined between CNY10,000 and CNY100,000.

Article 212 Any foreign company that unlawfully establishing any branch within China in violation of the Law shall be ordered by the company registration authority to remedy the defect or to close down the branch, and may be fined between CNY50,000 and CNY200,000.

Article 213 Where any person commits, in the name of a company, any serious violation of law that threatens the security of the state or injures the public interest or the interests of society, the business license of the company shall be revoked.

Article 214 Any company that violates any provision of the Law shall be liable in civil law to pay compensation and shall also pay the corresponding fines and other financial penalties. Where the company's assets are insufficient to pay any corresponding fines and other financial penalties, the company shall first meet any valid claim for compensation in civil law.

Article 215 Any company that commits any crime in violation of the Law shall be subject to criminal liability therefore.

Chapter XIII Supplementary Provisions

Article 216 For the purpose of the Law, the terms listed below are defined as follows:

1. A "*senior officer*" refers to any manager, deputy manager, financial principal, secretary to the board of directors of a listed company, or any other person specified in the articles of association.
2. A "*controlling shareholder*" refers to a shareholder whose capital contribution accounts for 50% or more of the total capital of a limited liability company or any shareholder whose stock accounts for more than 50% of the total share capital of a joint stock limited company or a shareholder whose capital contribution or proportion of stock is less than 50% of the total capital or share capital but whose voting rights are sufficient to have a significant influence on resolutions of the shareholders' meeting or the general meeting of shareholders.
3. An "*actual controller*" refers to any person who is not a shareholder but is in a position to exercise actual control over the acts of the company by means of investment relationships, agreements or any other arrangements.
4. "*affiliated relation*" refers to any relation between the controlling shareholder, actual controller, director, supervisor, or senior officer of a company and the enterprise directly or indirectly controlled thereby and any other relation that may enable the transfer of any interest in the company. Enterprises controlled by the state do not have an affiliated relation as between themselves simply because their shares are controlled by the state.

Article 217 Limited liability companies and joint stock limited companies that have foreign investors shall be governed by the Law. Where provisions of any other law regarding foreign investment conflict with the Law, the former shall prevail.

Article 218 The Law shall take effect as of January 1, 2006.

Appendix V: Foreign Investment Law of the People's Republic of China

Order of the President of the People's Republic of China No.26

- ✓ Adopted on March 15, 2019;
- ✓ Effective as of January 1st 2020.

Chapter I General Provisions

Article 1 The Foreign Investment Law of the People's Republic of China (hereinafter referred to as "*this Law*") is hereby formulated in accordance with the Constitution of the People's Republic of China in a bid to further expand opening-up, vigorously promote foreign investment, protect the legitimate rights and interests of foreign investors, standardize the management of foreign investment, impel the formation of a new pattern of all-round opening-up and boost the sound development of the socialist market economy.

Article 2 This Law shall be applicable to the foreign investment within the territory of the People's Republic of China (hereinafter referred to as "*the territory of China*"). For the purpose of this Law, foreign investment refers to the investment activity directly or indirectly conducted by a foreign natural person, enterprise or other organization (hereinafter referred to as the "*foreign investors*"), including the following circumstances:

1. A foreign investor establishes a foreign-funded enterprise within the territory of China, independently or jointly with any other investor;
2. A foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China;
3. A foreign investor makes investment to initiate a new project within the territory of China, independently or jointly with any other investor; and
4. A foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council. For the purpose of this Law, a foreign-funded enterprise refers to an enterprise that is incorporated under the Chinese laws within the territory of China and is wholly or partly invested by a foreign investor.

Article 3 The State shall adhere to the basic state policy of opening-up and encourage foreign investors to make investments within the territory of China. The State shall implement policies on high-level investment liberalization and convenience, establish

and improve the mechanism to promote foreign investment, and create a stable, transparent, foreseeable and level-playing market environment.

Article 4 The State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment. For the purpose of the preceding paragraph, pre-establishment national treatment refers to the treatment given to foreign investors and their investments during the investment access stage, which is not lower than that given to their domestic counterparts; negative list refers to special administrative measures for the access of foreign investment in specific fields as stipulated by the State. The State shall give national treatment to foreign investment beyond the negative list. The negative list will be issued by or upon approval by the State Council. If more preferential treatment concerning access is offered to a foreign investor under any international treaty or agreement that the People's Republic of China concludes or joins in, relevant provisions in such treaty or agreement may prevail.

Article 5 The State shall protect foreign investors' investment, earnings and other legitimate rights and interests within the territory of China in accordance with the law.

Article 6 Foreign investors and foreign-funded enterprises carrying out investment activities within the territory of China shall observe the Chinese laws and regulations, and shall not impair China's security or damage any public interest.

Article 7 The competent departments for commerce and investment under the State Council shall, pursuant to the division of duties, promote, protect and manage foreign investment; other relevant departments under the State Council shall take charge of the relevant work in the promotion, protection and management of foreign investment within the scope of their respective duties.

The relevant department under the local people's government at or above the county level shall carry out the work relating to promotion, protection and management of foreign investment in accordance with laws and regulations and in line with the division of duties determined by the people's government at the same level.

Article 8 Employees of a foreign-funded enterprise shall, pursuant to the law, establish trade union, carry out trade union activities, and safeguard their legitimate rights and interests. A foreign-funded enterprise shall provide necessary conditions for its trade union to carry out relevant activities.

Chapter II Investment Promotion

Article 9 All national policies on supporting the development of enterprises shall equally apply to foreign-funded enterprises in accordance with the law.

Article 10 Comments and suggestions from foreign-funded enterprises shall be sought in a proper manner when formulating laws, regulations and rules relating to foreign investment. Normative documents and judgment documents relating to foreign investment shall be published in accordance with the law in due time.

Article 11 The State shall establish and perfect the service system for foreign investment and provide foreign investors and foreign-funded enterprises with consultation and services in respect of laws and regulations, policies and measures, investment project information and other aspects.

Article 12 The State shall establish multilateral and bilateral cooperation mechanisms for the promotion of investment with other countries, regions and international organizations, so as to enhance international exchanges and cooperation in terms of investment.

Article 13 The State may, as needed, establish special economic area or carry out pilot polices and measures on foreign investment in specific areas, so as to promote foreign investment and expanding opening-up.

Article 14 The State may, according to the requirements of national economy and social development, encourage and guide foreign investors to invest in specific industries, fields and areas. Foreign investors and foreign-funded enterprises may enjoy preferential treatments in accordance with laws, administrative regulations or provisions of the State Council.

Article 15 The State shall guarantee that foreign-funded enterprises can equally participate in setting standards in accordance with the law, and enhance information disclosure and social supervision on standard setting. The compulsory standards formulated by the State shall equally apply to foreign-funded enterprises.

Article 16 The State shall guarantee that foreign-funded enterprises can participate in government procurement activities through fair competition. Products produced and services provided by foreign-funded enterprises within the territory of China shall be treated equally in a government procurement.

Article 17 Foreign-funded enterprises may conduct financing through public offering of shares, corporate bonds and other securities or by other means.

Article 18 Local people's governments at county level or above may, in accordance with the provisions in laws, administrative regulations or local regulations, formulate

policies on promotion and facilitation of foreign investment within their respective statutory authorities.

Article 19 People's governments at all levels and relevant departments thereunder shall, under the principle of convenience, efficiency and transparency, streamline procedures for handling affairs, raise their efficiency and optimize government services, so as to further improve the services offered for foreign investment. Relevant competent departments shall prepare and publish guidelines for foreign investment and provide foreign investors and foreign-funded enterprises with services and convenience.

Chapter III Investment Protection

Article 20 The State is not to expropriate any investment made by foreign investors. Under special circumstances, the State may expropriate or requisition an investment made by foreign investors for public interests in accordance with the law. Such expropriation or requisition shall be made pursuant to statutory procedures and fair and reasonable compensation will be given in a timely manner.

Article 21 A foreign investor may, in accordance with the law, freely transfer inward and outward its contributions, profits, capital gains, income from asset disposal, royalties of intellectual property rights, lawfully obtained compensation or indemnity, income from liquidation and so on within the territory of China in CNY or a foreign currency.

Article 22 The State shall protect the intellectual property rights of foreign investors and foreign-funded enterprises, and protect the legitimate rights and interests of holders of intellectual property rights and relevant right holders; in case of any infringement of intellectual property right, legal liability shall be investigated strictly the legal liability in accordance with the law.

During the process of foreign investment, the State shall encourage technology cooperation on the basis of free will and business rules. Conditions for technology cooperation shall be determined by all investment parties upon negotiation under the principle of equity. No administrative department or its staff member shall force any transfer of technology by administrative means.

Article 23 Administrative departments and their staff members shall keep confidential any trade secret of foreign investor or foreign-funded enterprise they are aware of

during the performance of their duties, and shall not divulge or illegally provide to others the secret.

Article 24 In formulating normative documents concerning foreign investment, the people's governments at all levels and their relevant departments shall comply with laws and regulations. Where relevant laws and regulations are not available, the people's governments at all levels and their relevant departments shall not impair the legitimate rights and interests of or impose any additional obligation to a foreign-funded enterprise, set any condition for market access and withdrawal, or intervene any normal production and operation activity of a foreign-funded enterprise.

Article 25 Local people's governments at all levels and their relevant departments shall strictly keep their policy commitments made to foreign investors and foreign-funded enterprises and perform all contracts entered into in accordance with the law. If any policy commitment or contract needs to be changed due to national interests or public interests, the statutory authority and procedures shall be strictly followed, and the foreign investor or foreign-funded enterprise concerned shall be compensated for losses incurred thereby in accordance with the law.

Article 26 The State shall establish a complaint mechanism for foreign-funded enterprises, timely solve the problems reported by foreign-funded enterprises or their investors, and coordinate and improve relevant policy measures.

Where a foreign-funded enterprise or its investor deems that any administrative act of an administrative department or its staff member infringes its legitimate rights and interests, it may seek coordination and resolution thereof through the complaint mechanism for foreign-funded enterprises.

Where a foreign-funded enterprise or its investor deems that any administrative act of an administrative department or its staff member infringes its legitimate rights and interests, in addition to seeking coordination and resolution through the complaint mechanism for foreign-funded enterprises, it may apply for administrative review, or lodge an administrative litigation.

Article 27 Foreign-funded enterprises may legally establish and voluntarily join in a chamber of commerce or association, which shall carry out relevant activities in accordance with laws, regulations and the articles of association thereof and safeguard the legitimate rights and interests of its member.

Chapter IV Investment Management

Article 28 Foreign investors shall not invest in any field forbidden by the negative list for access of foreign investment (hereinafter referred to as the "negative list"). For any field restricted by the negative list, foreign investors shall conform to the investment conditions provided in the negative list. Fields not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated uniformly.

Article 29 During the process of foreign investment, where verification and record-filing of a foreign investment project are required, relevant provisions of the State shall be followed.

Article 30 If a foreign investor invests in an industry or field where license is required in accordance with the law, relevant licensing formalities shall be handled as stipulated by law. Unless otherwise provided by laws or administrative regulations, relevant competent department shall review the application for license filed by the foreign investor based on the same conditions and procedures as those for domestic investment.

Article 31 The organization form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the Company Law of the People's Republic of China, the Partnership Enterprise Law of the People's Republic of China, and other laws.

Article 32 In carrying out production and operation activities, foreign-funded enterprises shall conform to relevant provisions on labor protection and social insurance stipulated in laws and administrative regulations, handle tax, accounting, foreign exchange and other matters in accordance with laws, administrative regulations and relevant provisions of the State, and shall be subject to the supervision and inspection conducted by relevant competent departments in accordance with the law.

Article 33 Foreign investors who acquire a company within the territory of China through mergers and acquisitions or participate in the concentration of undertakings by other means shall be subject to the examination for concentration of undertakings as stipulated by the Anti-Monopoly Law of the People's Republic of China.

Article 34 The State shall establish a foreign investment information reporting system. Foreign investors or foreign-funded enterprises shall submit the investment information to competent departments for commerce through the enterprise registration system and the enterprise credit information publicity system.

The contents and scope of foreign investment information to be reported shall be determined under the principle of necessity; investment information that is available through interdepartmental information sharing will not be required to be submitted again.

Article 35 The State shall establish a safety review system for foreign investment, under which the safety review shall be conducted for any foreign investment affecting or having the possibility to affect national security. The decision made upon the safety review in accordance with the law shall be final.

Chapter V Legal Liability

Article 36 Where a foreign investor invests in a field forbidden by the negative list, relevant competent department shall order the said investor to stop its investment activity, dispose of the shares and assets thereof or take any other necessary measures within a prescribed time limit, and restore the state to what it was prior to the investment; if there is any illegal gain, such gain shall be confiscated. Where an investment activity of a foreign investor breaches any special administrative measures for restrictive access provided in the negative list, relevant competent department shall order the investor to make corrections within a prescribed time limit, and take necessary measures to meet the requirements of the aforesaid measures; if the foreign investor fails to make corrections within the time limit, measures specified in the preceding paragraph shall be taken.

Where an investment activity of a foreign investor violates any provision in the negative list, the said investor shall bear corresponding legal liability in accordance the law, in addition to being subject to measures specified in the preceding two paragraphs.

Article 37 Where any foreign investor or foreign-funded enterprise violates the provisions herein and fails to report their investment information as required by the foreign investment information reporting system, competent department for commerce shall order it to make corrections within a prescribed time limit; if such corrections are not made in time, a penalty of not less than CNY100,000 yet not more than CNY500,000 shall be imposed.

Article 38 Foreign investors and foreign-funded enterprises violating any law or regulation shall be subject to investigation and measures by relevant departments in accordance with the law and shall be included in the credit information system pursuant to relevant provisions of the State.

Article 39 Where a staff member of an administrative department abuses his/her functions and powers, neglects his/her duties or engages in malpractice for personal gain during the work relating to promotion, protection and management of foreign investment, or divulge or illegally provide to others any trade secret he/she is aware of during the performance of duties, a penalty will be imposed upon him/her in accordance with the law; if a crime is constituted, he/she will be held criminally liable.

Chapter VI Supplementary Provisions

Article 40 Where any country or region takes any discriminatory prohibitive or restrictive measures, or other similar measures against the People's Republic of China in terms of investment, the People's Republic of China may take corresponding measures against the said country or region in light of the actual conditions.

Article 41 For foreign investors who invest in such financial industries as banking, securities and insurance or manage any investment in such financial markets as securities market and foreign exchange market within the territory of China within the territory of China, where the State has any other provisions, such provisions shall prevail.

Article 42 This Law shall come into effect as of January 1, 2020. The Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures, the Law of the People's Republic of China on Wholly Foreign-owned Enterprises and the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures shall be repealed simultaneously.

Foreign-funded enterprises, which were established in accordance with the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures, the Law of the People's Republic of China on Wholly Foreign-owned Enterprises and the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures before the implementation of the Law, may retain their original organization forms and other aspects for five years upon the implementation hereof. Specific implementation measures shall be formulated by the State Council.

Appendix VI: Law of the PRC on Wholly Foreign-owned Enterprises

Order of the President of the People's Republic of China No.51

- ✓ Adopted on April 12, 1986;
- ✓ Succeeded by the Foreign Investment Law of the People's Republic of China.

Article 1 In order to expand foreign economic cooperation and technological exchange, and promote the development of the Chinese economy, the People's Republic of China permits foreign enterprises and other economic organizations or individuals (hereinafter referred to as "*foreign investors*") to establish wholly foreign-owned enterprises within the territory of the People's Republic of China and shall protect the lawful rights and interests of such enterprises.

Article 2 The term "*wholly foreign-owned enterprise*" as used in this Law refer to any enterprise established within the territory of the People's Republic of China in accordance with applicable Chinese laws with capital provided solely by a foreign investor but does not include any branch established in China by a foreign enterprise or other economic organization.

Article 3 Wholly foreign-owned enterprises must benefit the development of the Chinese economy. The State encourages the establishment of wholly foreign-owned enterprises that export commodities or that are technologically advanced. The State Council is to provide for industries in which the establishment of wholly foreign-owned enterprises is prohibited or restricted.

Article 4 The investments, profits and other legitimate rights and interests of foreign investors in China are protected by Chinese law.

Foreign investors must obey Chinese laws and regulations, and shall not harm the public interest of China.

Article 5 The State is not to nationalize, or expropriate the assets of, wholly foreign-owned enterprises. In special circumstances, where necessary, the assets of a wholly foreign-owned enterprise may be expropriated for the public interest in accordance with legal procedures, with appropriate compensation paid.

Article 6 Any application to establish a wholly foreign-owned enterprise is subject to examination and approval by the State Council department in charge of foreign trade and economic relations or an agency authorized by the State Council. The examination

and approval agency shall, within 90 days of receiving the application, make a decision on whether or not to approve it.

Article 7 After an application to establish a wholly foreign-owned enterprise has been approved, the foreign investor shall, within 30 days of receiving the approval certificate, apply for registration with the administrative authority for industry and commerce and obtain a business license. The date on which the wholly foreign-owned enterprise business license is issued shall be the enterprise's date of establishment.

Article 8 Any wholly foreign-owned enterprise that meets the criteria for legal personality under the relevant Chinese laws shall have legal person status in accordance with the law.

Article 9 Wholly foreign-owned enterprises shall invest in China within the period of time specified by the examination and approval authority concerned. Where a wholly foreign-owned enterprise fails to invest within the specified period of time, the administrative authority for industry and commerce shall have the right to revoke its business license.

The administrative authorities for industry and commerce shall carry out inspections of and supervise the investment status of wholly foreign-owned enterprises.

Article 10 In the event that a wholly foreign-owned enterprise goes through a breakup, merger or any other major change, the enterprise concerned shall apply for approval from the examination and approval authority and go through the registration procedure for the relevant change with the administrative authority for industry and commerce.

Article 11 A wholly foreign-owned enterprise shall be operated and managed in accordance with its approved Articles of association and shall be free from interference.

Article 12 Any wholly foreign-owned enterprise that employs Chinese staff shall sign employment contracts in accordance with the law. Employment contracts shall clearly stipulate matters such as terms of employment, dismissal, remuneration, welfare, labor protections and labor insurance.

Article 13 The employees of a wholly foreign-owned enterprise may, in accordance with the law, establish a labor union to undertake labor union activities and protect the legitimate rights and interests of employees.

Wholly foreign-owned enterprises shall provide the necessary conditions for the organization of activities by their labor unions.

Article 14 Wholly foreign-owned enterprises must establish accounting books and records in China, arrange for independent audits to be undertaken and, in accordance with applicable regulations, submit their accounting statements to and accept the supervision of the financial and taxation authorities.

In the event that a wholly foreign-owned enterprise refuses to maintain accounting books and records in China, penalties may be imposed by the financial and taxation authorities, and the administrative authority for industry and commerce may order the relevant enterprise to cease operations or revoke its business license.

Article 15 Raw materials, fuel and other physical goods that fall within the permitted scope of business of and are required by a wholly foreign-owned enterprise may be purchased on the domestic or international market in accordance with the principles of fairness and reasonableness.

Article 16 The various types of insurance required by a wholly foreign-owned enterprise shall be taken out with insurance companies in China.

Article 17 Wholly foreign-owned enterprises shall pay tax in accordance with the relevant provisions of state tax regulations and may enjoy preferential tax exemptions and reductions.

Any wholly foreign-owned enterprise that reinvests its profits in China after paying tax may, in accordance with the relevant provisions of state regulations, apply for a refund of the amount of income tax already paid on the amount reinvested.

Article 18 Matters relating to the foreign exchange of a wholly foreign-owned enterprise shall be handled in accordance with state provisions governing foreign exchange controls.

Wholly foreign-owned enterprises shall open bank accounts with the Bank of China or a bank designated by the State Administration of Foreign Exchange.

Article 19 The foreign investor in any wholly foreign-owned enterprise may remit abroad profits lawfully earned from the enterprise and other income and funds lawfully obtained following the liquidation of the enterprise.

Wages and other lawful income earned by foreign employees of wholly foreign-owned enterprises may be remitted abroad after individual income tax has been paid in accordance with the law.

Article 20 The operating period of a wholly foreign-owned enterprise shall be determined by the examination and approval authority concerned following an

application made by the foreign investor. Where an extension of the operating period is sought, an application shall be made to the examination and approval authority no less than 180 days prior to the date on which the current operating period is due to expire. The examination and approval authority shall, within 30 days of receiving the application, make a decision on whether or not to approve the application.

Article 21 Where a wholly foreign-owned enterprise ceases business operations, a prompt announcement shall be made and the enterprise shall be liquidated in accordance with applicable legal procedures.

Pending the completion of liquidation procedures, the foreign investor shall refrain from disposing of the enterprise's assets other than for the purpose of carrying out the liquidation.

Article 22 Where a wholly foreign-owned enterprise ceases business operations, the enterprise shall go through the procedures for the cancellation of its registration and the return and cancellation of its business license with the administrative authority for industry and commerce concerned.

Article 23 Where the establishment of wholly foreign-owned enterprises does not involve the implementation of special access administrative measures prescribed by the state, the approval items stipulated in Article 6, Article 10 and Article 20 of this Law are subject to record-filing management. The special access administrative measures prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

Article 24 Detailed regulations for the implementation of this Law shall be formulated by the State Council department responsible for trade and foreign economic relations and shall come into effect after being submitted to and approved by the State Council.

Article 25 This Law shall come into effect on the date of issue hereof.

Appendix VII: Law of the PRC on Sino-Foreign Equity Joint Ventures

Order of the President of the People's Republic of China No.51

- ✓ Adopted on July 1, 1979;
- ✓ Succeeded by the Foreign Investment Law of the People's Republic of China.

Article 1 In order to expand international economic cooperation and technological exchange, the People's Republic of China shall permit foreign companies, enterprises, other commercial organizations and individuals (hereinafter referred to as "*foreign parties*"), subject to the approval of the Chinese government, to form joint ventures with Chinese companies, enterprises and other commercial organizations (hereinafter referred to as "*Chinese investors*") within the territory of the People's Republic of China based on the principles of equality and mutual benefit.

Article 2 The Chinese government shall protect, in accordance with the law, investments, entitled profits and other lawful rights and interests of foreign parties in joint ventures that are in accordance with agreements, contracts and articles of association approved by the Chinese government.

Joint ventures shall observe the laws and regulations of the People's Republic of China in all their activities.

The State shall not nationalize or expropriate any joint venture. Under special circumstances, in accordance with public interest, a joint venture may be expropriated in accordance with the procedures prescribed by law, in which case appropriate compensation shall be given.

Article 3 Joint venture agreements, contracts and articles of association concluded by the parties to a joint venture shall be submitted to the state foreign economic relations and trade administrative department (hereinafter referred to as the "approval authority") for examination and approval. The approval authority shall make a decision on whether or not to approve a joint venture within three months. Once approved, a joint venture shall register with the State Administrative Department for Industry and Commerce and obtain a business license, and shall commence operations.

Article 4 Joint ventures shall be established as limited liability companies.

The proportion of a joint venture's registered capital contributed by the foreign party shall generally be no lower than 25 percent.

The profits, risks and losses of a joint venture shall be shared by the parties to the venture in proportion to their respective contributions to its registered capital. A party to a joint venture may transfer its shares in the registered capital only with the agreement of the other party.

Article 5 Each party to a joint venture may contribute cash, material assets, industrial property rights, etc., as its investment in the venture.

The technology or equipment contributed by a foreign party as its investment in the venture shall be advanced technology or equipment that is truly appropriate to China's needs. Compensation shall be paid where losses are caused by fraud through the intentional provision of outdated equipment or technology.

The investment contributed by a Chinese investor may include the right to use a site provided for the joint venture during its operating term. Where the right to use a site does not constitute part of the investment made by the Chinese investor, the joint venture shall pay fees to the Chinese government for use of the site.

The various contributions referred to in this Article shall be specified in the joint venture contract or the joint venture's articles of association, and the value of each contribution (excluding that of the site) shall be ascertained by the parties to the venture through consultation.

Article 6 A joint venture shall establish a board of directors. The size and composition of the board of directors shall be determined through negotiations between the parties to the joint venture and shall be stipulated in the contract and articles of association.

Members of the board of directors shall be appointed and replaced by the parties to the joint venture. The chairman of the board and the vice-chairman of the board shall be determined through negotiation between the parties to the joint venture or elected by the board of directors. Where the post of chairman of the board is assumed by one party to the joint venture, the other party shall assume the post of vice-chairman. The board of directors shall make major decisions concerning the joint venture based on the principles of equality and mutual benefit.

The powers and functions of the board of directors shall be to discuss and decide, in accordance with the provisions of the articles of association of the joint venture, all major issues concerning the venture, namely, development plans, production and business plans, its budget, the distribution of profits, labor and remuneration plans, the cessation of business activities and the appointment or recruitment of the general

manager, the deputy general manager, the chief engineer, the chief accountant and the auditor, in addition to their functions, powers and remuneration, etc.

The posts of general manager and deputy general manager (or factory manager and deputy factory manager) shall be split between the parties to the joint venture. Matters concerning the employment, dismissal, remuneration, welfare benefits, labor protections, labor insurance, etc., of the employees of a joint venture shall be stipulated in a contract in accordance with the law.

Article 7 The employees of a joint venture may, in accordance with the law, establish a trade union organization to conduct trade union activities and safeguard the lawful rights and interests of employees.

Joint ventures shall provide their trade unions with the necessary conditions for union activities.

Article 8 The net profits of a joint venture shall be distributed to the parties to the venture in proportion to their respective shares in the registered capital after paying joint venture income tax in accordance with the tax laws of the People's Republic of China and after making deductions for the reserve fund, the employee bonus and welfare fund, and the venture development fund as stipulated in the articles of association of the joint venture.

A joint venture may, in accordance with relevant tax laws and administrative regulations of the state, enjoy preferential tax reductions and exemptions. Any foreign party that reinvests its share of net profits within Chinese territory may apply for a refund of part of the income tax already paid.

Article 9 A joint venture shall, on the strength of its business license, open a foreign exchange account with a bank or other financial institution authorized to engage in foreign exchange business by the State Administration of Foreign Exchange. Joint ventures shall conduct their foreign exchange business in accordance with the Administrative Regulations of the People's Republic of China on Foreign Exchange. Joint ventures may, in the course of their business activities, borrow funds directly from foreign banks.

Any insurance policy taken out by a joint venture shall be taken out with an insurance company within Chinese territory.

Article 10 Materials, such as raw materials and fuel, which are required under the approved business scope of a joint venture, may be purchased on the domestic market or international market according to the principles of fairness and reasonableness.

Joint ventures are encouraged to sell their products outside China. Joint ventures may distribute their export products in foreign markets either directly or via appropriate agencies or Chinese foreign trade organizations. Joint venture products may also be distributed in the Chinese market.

Where necessary, joint ventures may establish branch organizations outside China.

Article 11 A foreign party to a joint venture may, on the expiry or suspension of a joint venture, after performing its obligations as stipulated in the law and in any agreement or contract, remit abroad its net share of profits and any other funds distributed to it using the currency stipulated in the joint venture contract and in accordance with the Administrative Regulations of the People's Republic of China on Foreign Exchange.

Foreign parties shall be encouraged to deposit with the Bank of China any amount of foreign exchange they become entitled to remit abroad.

Article 12 Wages and other lawful income earned by expatriate employees of joint ventures may, after the payment of individual income tax in accordance with the tax laws of the People's Republic of China, be remitted abroad in accordance with the Administrative Regulations of the People's Republic of China on Foreign Exchange.

Article 13 The operating term of any joint venture shall be determined in accordance with its industry and individual circumstances. An operating period shall be set for joint ventures in certain industries, and may or may not be set for joint ventures in other industries. Where the operating period for a joint venture is set and the parties subsequently agree to extend the operating period, they shall apply to the approval authority no later than six months prior to the date on which the operating period is due to expire. The approval authority shall make a decision on whether or not to approve the extension within one month of the date on which it receives the application.

Article 14 Subject to the approval of the approval authority and registration with the state industry and commerce administration department, where a joint venture suffers heavy losses, one party to a joint venture fails to perform its obligations under the contract or articles of association, or any force majeure event occurs, etc., the joint venture contract may be terminated by agreement of the parties. Where any economic loss is caused by a breach of contract, the party in breach shall be liable for the loss.

Article 15 Where the establishment of Chinese-foreign equity joint ventures does not involve the implementation of special access administrative measures prescribed by the state, the approval items stipulated in Article 3, Article 13 and Article 14 of this Law are subject to record-filing management. The special access administrative measures

prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

Article 16 Any dispute between the parties to a joint venture that its board of directors fails to resolve through consultation may be resolved through conciliation or arbitration by an arbitral body in China or through arbitration by an arbitral body agreed upon by the parties.

Where the parties to a joint venture have not included an arbitration clause in their contract or have not subsequently reached an arbitration agreement in writing, they shall be entitled to institute legal proceedings in a people's court.

Article 17 This Law shall come into force on the date of issue hereof.

Appendix VIII: Law of the PRC on Sino-Foreign Cooperative Joint Ventures

Order of the President of the People's Republic of China No.81

- ✓ Adopted on April 13, 1988;
- ✓ Succeeded by the Foreign Investment Law of the People's Republic of China.

Article 1 This Law is enacted for the purposes of increasing economic cooperation and technological exchange with foreign countries and encouraging foreign enterprises, other economic organizations, or individuals (the "foreign party") to jointly establish Sino-foreign cooperative joint ventures (the "cooperative enterprises") within the territory of the People's Republic of China with Chinese enterprises or other economic organizations (the "Chinese party") in accordance with the principles of equality and mutual benefit.

Article 2 When establishing a cooperative enterprise, both Chinese and foreign parties shall, in accordance with the provisions of this Law, stipulate in their cooperative enterprise contract such items as the investment or pre-requisites for cooperation, the distribution of earnings or products, the sharing of risk and loss, the mode of operation and management, and the ownership of property upon termination of the cooperative enterprise.

A cooperative enterprise which meets the conditions for being considered a legal person as specified in relevant Chinese law is to lawfully acquire said status of a Chinese legal person.

Article 3 The State shall protect the lawful rights and interests of the cooperative enterprise and of both Chinese and foreign parties according to law.

A cooperative enterprise must abide by Chinese laws and regulations, and shall not damage the public interest of China.

The relevant State organs shall supervise cooperative enterprises according to law.

Article 4 The State encourages the establishment of cooperative production enterprises that export products or have advanced technology.

Article 5 When applying to establish a cooperative enterprise, such documents as the agreement, the contract, and the company charter, each signed by both Chinese and foreign parties, shall be submitted to the department under the State Council in charge of foreign economic trade or to a department authorized by the State Council and a relevant local government (the "examination and approval authority") for examination

and approval. Within 45 days of receipt of the application, the examination and approval authority shall decide whether or not to approve the application.

Article 6 After an application for the establishment of a cooperative enterprise is approved, the applicant shall, within 30 days of receipt of the certificate of approval, apply to the industrial and commercial administrative organs for registration and collect a business license. The date on which the business license of a cooperative enterprise is issued shall be its official date of establishment.

A cooperative enterprise shall complete the tax registration formalities with the relevant tax authority within 30 days of its establishment.

Article 7 Where both Chinese and foreign parties, during the term of their cooperative enterprise contract, agree after consultation to make any significant modification to the contract, they shall report such modification to the examination and approval authority for approval; where the modification involves any statutory business registration item or tax registration item, they shall complete the registration formalities for such modification with the relevant the industrial and commercial administrative organs or tax authority.

Article 8 The investment or pre-requisite conditions for cooperation provided by either party may be in the form of cash, in kind, land use rights, industrial property, non-patented technology, or any other property right.

Article 9 Both Chinese and foreign parties shall, in accordance with the provisions of laws and regulations and the agreements set forth in the cooperative enterprise contract, duly perform their responsibilities of paying up their investment and providing the pre-requisites for cooperation. If one party fails to do so within the prescribed time limit, the industrial and commercial administrative organs shall set another deadline for the satisfaction of these obligations; if the new deadline expires and the contract is still unfulfilled, the issue shall be handled by the examination and approval authority and the industrial and commercial administrative organs according to national regulations.

The fulfillment of investments or other pre-requisites for cooperation by both parties shall be confirmed by either a registered accountant in China or the relevant authorities. Written proof of fulfillment shall be issued following verification.

Article 10 If either the Chinese or foreign party wishes to transfer some or all of the rights and responsibilities stipulated in the cooperative enterprise contract, the party must first obtain the consent of the other party or parties, and report to the examination and approval authority for approval.

Article 11 A cooperative enterprise shall carry out its business operations and management as stipulated in the contract or charter of the cooperative enterprise. The right of a cooperative enterprise to make its own business decisions shall not be infringed.

Article 12 A cooperative enterprise shall establish a board of directors or a joint managerial body, which in turn shall, as stipulated in the contract or charter of the cooperative enterprise, make all major decisions for the company. Where one party assumes the post of either chairman of the board of directors or director of the joint managerial body, the other shall take the post of vice-chairman or deputy director. The board of directors or the joint managerial body may decide on the appointment or hiring of a general manager, who shall be in charge of the daily operation and management of the cooperative enterprise. The general manager shall answer to the board of directors or joint managerial body.

If a cooperative enterprise, following its establishment, chooses to employ a third party to operate and manage the company, the full consent of the board of directors or the joint managerial body must be obtained, and the change must be registered with the industrial and commercial administrative organs.

Article 13 Terms of employment and dismissal, remuneration, benefits, labor safety, labor insurance, and other matters that concern the employees of a cooperative enterprise shall be specified in a lawfully signed contract.

Article 14 The employees of a cooperative enterprise shall, in accordance with law, set up a trade union to carry out various trade union activities and protect the employees' lawful rights and interests.

The cooperative enterprise should provide the necessary conditions for the union to conduct its activities.

Article 15 A cooperative enterprise must establish its bookkeeping system within Chinese territory; it must file regular accounting statements as per relevant provisions, and submit to supervision by the finance and tax authorities.

Should a cooperative enterprise not establish its bookkeeping system within Chinese territory in violation of the stipulations of the preceding paragraph, the finance and tax authorities may impose fines, and the industrial and commercial administrative organs may order it to suspend business operations or revoke its business license.

Article 16 A cooperative enterprise should open a foreign exchange account by presenting its business license at a bank or any other financial institution which is

permitted by the national exchange control authorities to conduct foreign exchange transactions.

A cooperative enterprise shall handle its foreign exchange transactions in accordance with national regulations on administration of foreign exchange.

Article 17 A cooperative enterprise may accept loans from either domestic or foreign financial institutions.

Each party should make their own arrangements for loans and guarantees to be used as investments or pre-requisites for cooperation.

Article 18 The various types of insurance required by a cooperative enterprise shall be provided by insurance institutions within the territory of the People's Republic of China.

Article 19 A cooperative enterprise may, within its approved scope of operation, import necessary materials and export finished products. Consistent with the principles of fairness and reasonableness, a cooperative enterprise may, within its approved scope of operation, purchase the raw materials, fuels, and other necessary resources on either the domestic or world market.

Article 20 In accordance with national regulations on taxation, a cooperative enterprise shall pay taxes, and may enjoy preferential tax treatment including tax deductions or exemptions.

Article 21 The Chinese and foreign parties shall share earnings and manufactured goods or bear risk and loss in accordance with the stipulations of the cooperative enterprise contract.

If it is stipulated in the cooperative enterprise contract that all the fixed assets of the cooperative enterprise are to become property of the Chinese party upon the expiration of parties' cooperative agreement, the Chinese and foreign parties may also stipulate in the contract means for the foreign party to recover their investment prior to the end of the company's operational term.

If, as per the provisions of the preceding paragraph, the foreign party is to recover its investment before the end of the company's operational term, both Chinese and foreign parties shall first take responsibility for the company's debts, as stipulated by the relevant laws and the cooperative enterprise contract.

Article 22 After the foreign party has fulfilled its legal responsibilities as stipulated in relevant laws and the cooperative enterprise contract, their share of company profits,

other legitimate income, and any money received at the termination of the contract may be lawfully transferred overseas.

The wages or other legitimate income earned by the company's foreign personnel may be transferred overseas following the payment of personal income tax as prescribed by tax laws.

Article 23 Upon expiration or advance termination of a cooperative enterprise contract, the company's assets, claims, and debts shall be liquidated according to standard legal procedure. The Chinese and foreign parties shall determine the ownership of cooperative enterprise property based on the stipulations of the cooperative enterprise contract.

Upon expiration or advance termination of the contract, the cooperative enterprise shall cancel its registration with both the industrial and commercial administrative organs and the tax authorities.

Article 24 The operational term of a cooperative enterprise shall be determined by consultation between the Chinese and foreign parties, and shall be clearly specified in the cooperative enterprise contract. If the Chinese and foreign parties agree to extend the period of their cooperation, they shall apply to the approval authority at least 180 days prior to the expiration of the contract. The approval authority shall decide whether to grant approval within 30 days of receiving the application.

Article 25 Where the establishment of Chinese-foreign cooperative joint ventures does not involve the implementation of special access administration measures prescribed by the state, the approval items stipulated in Article 5, Article 7, Article 10, and Article 24 of this Law shall be subject to record-filing management. The special access administrative measures prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

Article 26 Any disputes between the Chinese and foreign parties to a cooperative enterprise while performing the cooperative enterprise contract or the company charter should be settled through consultation or mediation. In the case where one party is unwilling to resolve a dispute through consultation or mediation, or where the parties have failed to settle a dispute through consultation or mediation, each party may act in accordance with the arbitration clause in the cooperative enterprise contract or a written arbitration agreement signed afterwards and submit the case to a Chinese arbitration agency or some other arbitration agency.

If there is no arbitration clause in the cooperative enterprise contract, nor a written arbitration agreement signed afterwards, then the parties may file a suit in a Chinese court.

Article 27 The detailed rules for the implementation of this document shall be formulated by the department under the State Council in charge of foreign economic trade and submitted to the State Council for approval prior to implementation.

Article 28 The Law shall come into effect as of the date of its promulgation.

Appendix IX: Trade agreements of the PRC

Table 19 provides a list of the trade agreements signed by China. Several agreements, including China – Maldives FTA, China – Cambodia FTA, and Regional Comprehensive Economic Partnership (RCEP) are still to be ratified by respective members.

No.	Free trade agreement	Signed on	Entry into force
1	Mainland and Hong Kong CEPA	2003-06-29	2003-06-29
2	Mainland and Macao CEPA	2003-10-17	2003-10-17
3	China – ASEAN FTA ²⁰	2004-11-29	2005-01-01
4	Asia Pacific Trade Agreement ²¹	2005-11-02	2006-09-01
5	China – Chile FTA ²²	2005-05-18	2006-10-01
6	China – Pakistan FTA ²³	2006-11-24	2007-07-01
7	China – New Zealand FTA	2008-04-07	2008-10-01
8	China – Singapore FTA ²⁴	2008-10-23	2009-01-01
9	China – Peru FTA	2009-04-28	2010-03-01
10	China – Costa Rica FTA	2010-04-08	2011-08-01
11	China – Iceland FTA	2013-04-15	2014-07-01
12	China – Switzerland FTA	2013-07-06	2014-07-01
13	China –Korea Republic FTA	2015-06-01	2015-12-20
14	China – Australia FTA	2015-06-17	2015-12-20
15	China – Georgia FTA	2017-05-13	2018-01-01
16	China – Maldives FTA	2017-12-08	Not in force
17	China – Mauritius FTA	2019-10-17	2021-01-01
18	China – Cambodia FTA	2020-10-05	Not in force
19	RCEP ²⁵	2020-11-15	Not in force

Table 19 List of trade agreements signed by China.

²⁰ The members of the FTA are China and the ten ASEAN countries, namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. On November 22nd, 2015, China and ASEAN countries signed an FTA Protocol Agreement.

²¹ The Asia Pacific Trade Agreement (APTA) was previously known as Bangkok Agreement, signed in July 1975. On November 2nd, 2005, the name of the agreement was changed into APTA and the representatives from the member countries endorsed a revised text of the agreement. Current members are Bangladesh, China, India, Korea Republic, Laos, Mongolia, and Sri Lanka. China officially joined the agreement in April 2001.

²² On November 13th, 2017, China and Chile signed an FTA Upgrading Negotiation Agreement.

²³ On April 29th, 2019, China and Pakistan signed an FTA Protocol of the Second Phase.

²⁴ On November 7th, 2008, China and Singapore signed an FTA Upgrading Negotiation Agreement.

²⁵ The Regional Comprehensive Economic Partnership (RCEP) consists of ten ASEAN countries, and five ASEAN partners (China, Australia, Japan, Korea Republic, New Zealand). RCEP shall enter into force for those signatory Parties that have ratified, accepted or approved it, 60 days after the date on which at least six ASEAN members and 3 non-ASEAN members have ratified, accepted or approved the agreement.

FTAs under negotiation

The following FTAs are currently under negotiation.

- China – Gulf Cooperation Council FTA
- China – Japan – Korea Republic FTA
- China – Sri Lanka FTA
- China – Israel FTA
- China – Norway FTA
- China – Moldova FTA
- China – Panama FTA
- China – Korea Republic FTA second phase
- China – Palestine FTA
- China – Peru FTA upgrade

FTAs under consideration and joint feasibility study

The following list provides the FTAs under consideration, but still at the joint feasibility study.

- China – Colombia FTA
- China – Fiji FTA
- China – Nepal FTA
- China – Papua New Guinea FTA
- China – Canada FTA
- China – Bangladesh FTA
- China – Mongolia FTA
- China – Switzerland FTA upgrade

Appendix X: Tax treaties of the PRC**List of double tax agreements (DTA)**

No.	Jurisdiction	Signed on	Effective from	Applicable since
1	Japan	1983-09-06	1984-06-26	1985-01-01
2	United States	1984-04-30	1986-11-21	1987-01-01
3	France	1984-05-30	1985-02-21	1986-01-01
		2013-11-26	2014-12-28	2015-01-01
4	United Kingdom	1984-07-26	1984-12-23	1985-01-01
		2011-06-27	2013-12-13	2014-01-01
5	Belgium	1985-04-18	1987-09-11	1988-01-01
		2009-10-07	2013-12-29	2014-01-01
6	Germany	1985-06-10	1986-05-14	1985-01-01
		2014-03-28	2016-04-06	2017-01-01
7	Malaysia	1985-11-23	1986-09-14	1987-01-01
8	Norway	1986-02-25	1986-12-21	1987-01-01
9	Denmark	1986-03-26	1986-10-22	1987-01-01
		2012-06-16	2012-12-27	2013-01-01
10	Singapore	1986-04-18	1986-12-11	1987-01-01
		2007-07-11	2007-09-18	2008-01-01
11	Canada	1986-05-12	1986-12-29	1987-01-01
12	Finland	1986-05-12	1987-12-18	1988-01-01
		2010-05-25	2010-11-25	2011-01-01
13	Sweden	1986-05-16	1987-01-03	1987-01-01
14	New Zealand	1986-09-16	1986-12-17	1987-01-01
	New	2019-04-01	2019-12-27	2020-01-01
15	Thailand	1986-10-27	1986-12-29	1987-01-01
16	Italy	1986-10-31	1989-11-14	1990-01-01
		2019-03-23	not in force	not in force
17	Netherlands	1987-05-13	1988-03-05	1989-01-01
		2013-05-31	2014-08-31	2015-01-01
18	Czechoslovakia	1987-06-11	1987-12-23	1988-01-01
19	Poland	1988-06-07	1989-01-07	1990-01-01
20	Australia	1988-11-17	1990-12-28	1991-01-01
21	Bosnia Herzegovina	1988-12-02	1989-12-16	1990-01-01

No.	Jurisdiction	Signed on	Effective from	Applicable since
22	Bulgaria	1989-11-06	1990-05-25	1991-01-01
23	Pakistan	1989-11-15	1989-12-27	1989-01-01
24	Kuwait	1989-12-25	1990-07-20	1989-01-01
25	Switzerland	1990-07-06	1991-09-27	1990-01-01
		2013-09-25	2014-11-15	2015-01-01
26	Cyprus	1990-10-25	1991-10-05	1992-01-01
27	Spain	1990-11-22	1992-05-20	1993-01-01
		2018-11-28	2021-05-02	2022-01-01
28	Romania	1991-01-16	1992-03-05	1993-01-01
		2016-07-04	2017-06-17	2018-01-01
29	Austria	1991-04-10	1992-11-01	1993-01-01
30	Brazil	1991-08-05	1993-01-06	1994-01-01
31	Mongolia	1991-08-26	1992-06-23	1993-01-01
32	Hungary	1992-06-17	1994-12-31	1995-01-01
33	Malta	1993-02-02	1994-03-20	1995-01-01
		2010-10-18	2011-08-25	2012-01-01
34	United Arab Emirates	1993-07-01	1994-07-14	1995-01-01
35	Luxembourg	1994-03-12	1995-07-28	1996-01-01
36	South Korea	1994-03-28	1994-09-27	1995-01-01
37	Russia	1994-05-27	1997-04-10	1998-01-01
		2014-10-13	2016-04-09	2017-01-01
38	Papua New Guinea	1994-07-14	1995-08-16	1996-01-01
39	India	1994-07-18	1994-11-19	1995-01-01
40	Mauritius	1994-08-01	1995-05-04	1996-01-01
41	Croatia	1995-01-09	2001-05-18	2002-01-01
42	Belarus	1995-01-17	1996-10-03	1997-01-01
43	Slovenia	1995-02-13	1995-12-27	1996-01-01
44	Israel	1995-04-08	1995-12-22	1996-01-01
45	Vietnam	1995-05-17	1996-10-18	1997-01-01
46	Turkey	1995-05-23	1997-01-20	1998-01-01
47	Ukraine	1995-12-04	1996-10-18	1997-01-01
48	Armenia	1996-05-05	1996-11-28	1997-01-01
49	Jamaica	1996-06-03	1997-03-15	1998-01-01

No.	Jurisdiction	Signed on	Effective from	Applicable since
50	Iceland	1996-06-03	1997-02-05	1998-01-01
51	Lithuania	1996-06-03	1996-10-18	1997-01-01
52	Latvia	1996-06-07	1997-01-27	1998-01-01
53	Uzbekistan	1996-07-03	1996-07-03	1997-01-01
54	Bangladesh	1996-09-12	1997-04-10	1998-01-01
55	Serbia Montenegro	1997-03-21	1998-01-01	1998-01-01
56	Sudan	1997-05-30	1999-02-09	2000-01-01
57	Macedonia	1997-06-09	1997-11-29	1998-01-01
58	Egypt	1997-08-13	1999-03-24	2000-01-01
59	Portugal	1998-04-21	2000-06-07	2001-01-01
60	Estonia	1998-05-12	1999-01-08	2000-01-01
61	Laos	1999-01-25	1999-06-22	2000-01-01
62	Seychelles	1999-08-26	1999-12-17	2000-01-01
63	Philippines	1999-11-18	2001-03-23	2002-01-01
64	Ireland	2000-04-19	2000-12-29	2001-01-01
65	South Africa	2000-04-25	2001-01-07	2002-01-01
66	Barbados	2000-05-15	2000-10-27	2001-01-01
67	Moldova	2000-06-07	2001-05-26	2002-01-01
68	Qatar	2001-04-02	2008-10-21	2009-01-01
69	Cuba	2001-04-13	2003-10-17	2004-01-01
70	Venezuela	2001-04-17	2004-12-23	2005-01-01
71	Nepal	2001-05-14	2010-12-31	2011-01-01
72	Kazakhstan	2001-09-12	2003-07-27	2004-01-01
73	Indonesia	2001-11-07	2003-08-25	2004-01-01
74	Oman	2002-03-25	2002-07-20	2003-01-01
75	Nigeria	2002-04-15	2009-03-21	2010-01-01
76	Tunisia	2002-04-16	2003-09-23	2004-01-01
77	Iran	2002-04-20	2003-08-14	2004-01-01
78	Bahrain	2002-05-16	2002-08-08	2003-01-01
79	Greece	2002-06-03	2005-11-01	2006-01-01
80	Kyrgyzstan	2002-06-24	2003-03-29	2004-01-01
81	Morocco	2002-08-27	2006-08-16	2007-01-01
82	Sri Lanka	2003-08-11	2005-05-22	2006-01-01

No.	Jurisdiction	Signed on	Effective from	Applicable since
83	Trinidad & Tobago	2003-09-18	2005-05-22	2006-01-01
84	Albania	2004-09-13	2005-07-28	2006-01-01
85	Brunei	2004-09-21	2006-12-29	2007-01-01
86	Azerbaijan	2005-03-17	2005-08-17	2006-01-01
87	Georgia	2005-06-22	2005-11-10	2006-01-01
88	Mexico	2005-09-12	2006-03-01	2007-01-01
89	Saudi Arabia	2006-01-23	2006-09-01	2007-01-01
90	Algeria	2006-11-06	2007-07-27	2008-01-01
91	Tajikistan	2008-08-27	2009-03-28	2010-01-01
92	Ethiopia	2009-05-14	2012-12-25	2013-01-01
93	Turkmenistan	2009-12-13	2010-05-30	2011-01-01
94	Czech Republic	2009-08-28	2011-05-04	2012-01-01
95	Zambia	2010-07-26	2011-06-30	2012-01-01
96	Syria	2010-10-31	2011-09-01	2012-01-01
97	Uganda	2012-01-11	not in force	not in force
98	Botswana	2012-04-11	2018-09-19	2019-01-01
99	Ecuador	2013-01-21	2014-03-06	2015-01-01
100	Chile	2015-05-25	2016-08-08	2017-01-01
101	Zimbabwe	2015-12-01	2016-09-29	2017-01-01
102	Cambodia	2016-10-13	2018-01-26	2019-01-01
103	Kenya	2017-09-21	not in force	not in force
104	Gabon	2018-09-01	not in force	not in force
105	Congo Republic	2018-09-05	not in force	not in force
106	Angola	2018-10-09	not in force	not in force
107	Argentina	2018-12-02	not in force	not in force

Tax arrangements between China Mainland and Hong Kong SAR and Macao SAR

No.	Region	Signed on	Effective from	Applicable since
1	Hong Kong SAR, China	2006-08-21	2006-12-08	2007-01-01
2	Macao SAR, China	2003-12-27	2003-12-30	2004-01-01

Tax treaty between China Mainland and Taiwan Province of China

No.	Region	Signed on	Effective from	Applicable since
1	Taiwan, Province of China	2015-08-25	not in force	not in force

List of Tax Information Exchange Agreements (TIEA)

No.	Jurisdiction	Signed on	Effective from	Applicable since
1	Bahamas	2009-12-01	2010-08-28	2011-01-01
2	British Virgin Islands	2009-12-07	2010-12-30	2011-01-01
3	Isle of Man	2010-10-26	2011-08-14	2012-01-01
4	Guernsey	2010-10-29	2011-08-17	2012-01-01
5	Jersey	2010-10-29	2011-11-10	2012-01-01
6	Bermuda	2010-12-02	2011-12-31	2012-01-01
7	Argentina	2010-12-13	2011-09-16	2012-01-01
8	Cayman Islands	2011-09-26	2012-11-15	2013-01-01
9	San Marino	2012-07-09	2013-04-30	2014-01-01
10	Liechtenstein	2014-01-27	2014-08-02	2015-01-01

Appendix XI: Applicable withholding tax rates in China's DTA

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Albania	10	0/10	10
Algeria	5/10	0/7	10
Argentina	5/10/15	0/12	3/5/7/10
Armenia	5/10	0/10	10
Australia	10	10	10
Austria	7/10	0/10	6/10
Azerbaijan	10	0/10	10
Bahrain	5	0/5	10
Bangladesh	10	0/10	10
Barbados	5/10	0/10	10
Belarus	10	0/10	10
Belgium	5/10	0/10	7
Bosnia and Herzegovina	5	0/10	10
Botswana	5	0/7.5	5
Brazil	10	0/10	10
Brunei Darussalam	5	0/10	10
Bulgaria	10	0/10	7/10
Cambodia	0/10	0/10	10
Canada	10	0/10	10
Chile	0/10	0/4/10	10
Congo Republic	0/5/10	10	5
Croatia	5	0/10	10
Cuba	5/10	0/7.5	5
Cyprus	10	10	10
Czech Republic	5/10	0/7.5	10
Denmark	5/10	0/10	7/10
Ecuador	5	0/10	8/10
Egypt	8	0/10	8
Estonia	5/10	0/10	10
Ethiopia	5	0/7	5
Finland	5/10	0/10	7/10
France	5/10	0/10	10

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Gabon	0/5	10	5/7.5
Georgia	0/5/10	0/10	5
Germany	5/10	0/10	6/10
Greece	5/10	0/10	10
Hong Kong SAR, China	5/10	0/7	7
Hungary	10	0/10	10
Iceland	5/10	0/10	10
India	10	0/10	10
Indonesia	10	0/10	10
Iran	10	0/10	10
Ireland	5/10	0/10	6/10
Israel	10	7/10	10
Italy ²⁶	10	0/10	10
Jamaica	5	0/7.5	10
Japan	10	0/10	10
Kazakhstan	10	0/10	10
Kenya	5	10	10
Korea, Rep.	5/10	0/10	10
Kuwait	0/5	0/5	10
Kyrgyzstan	10	0/10	10
Laos	5	0/10	10
Latvia	5/10	0/10	7
Lithuania	5/10	0/10	10
Luxembourg	5/10	0/10	6/10
Macao SAR, China	5/10	0/7	7
Malaysia	10	0/10	10/15
Malta	5/10	0/10	7/10
Mauritius	5	0/10	10
Mexico	5	0/10	10
Moldova	5/10	0/10	10

²⁶ The new DTA signed by Italy and China in 2019 revised several withholding tax rates for passive income, such as 5% rate for dividends paid to beneficial owner holding directly at least 25% of the capital of the paying company throughout a 365-day period before the payment, 8% reduced rate on certain interest paid to financial institutions, and 5% reduced rate for royalties paid for the use of, or the right to use, industrial, commercial, or scientific equipment.

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Mongolia	5	0/10	10
Montenegro	5	0/10	10
Morocco	10	0/10	10
Nepal	10	0/10	15
Netherlands	0/5/10	0/10	6/10
New Zealand	0/5/10	0/10	10
Nigeria	8	0/7.5	8
North Macedonia	5	0/10	10
Norway	10	0/10	10
Oman	5	0/10	10
Pakistan	10	0/10	13
Papua New Guinea	10	0/10	10
Philippines	10	0/10	10/15
Poland	10	0/10	7/10
Portugal	10	0/10	10
Qatar	10	0/10	10
Romania	0/3	0/3	3
Russia	5/10	0/5/10	6
Saudi Arabia	0/5	0/10	10
Serbia	5	0/10	10
Seychelles	5	0/10	10
Singapore	5/10	0/10	6/10
Slovak Republic	10	10	10
Slovenia	5	10	10
South Africa	5	0/10	7/10
Spain	10	10	6/10
Sri Lanka	10	0/10	10
Sudan	5	0/10	10
Sweden	5/10	0/10	6/10
Switzerland	0/5/10	0/10	9
Syria	5/10	0/10	10
Tajikistan	5/10	0/8	8
Thailand	10	0/10	15

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Trinidad and Tobago	5/10	0/10	10
Tunisia	8	0/10	5/10
Turkey	10	0/10	10
Turkmenistan	5/10	0/10	10
Uganda	8	0/10	10
Ukraine	5/10	0/10	10
United Arab Emirates	0/7	0/7	10
United Kingdom	0/5/10	0/10	6/10
United States	10	0/10	10
Uzbekistan	10	0/10	10
Venezuela	5/10	0/10	10
Vietnam	10	0/10	10
Zambia	5	0/10	5
Zimbabwe	0/2.5/7.5	0/7.5	7.5

Remarks

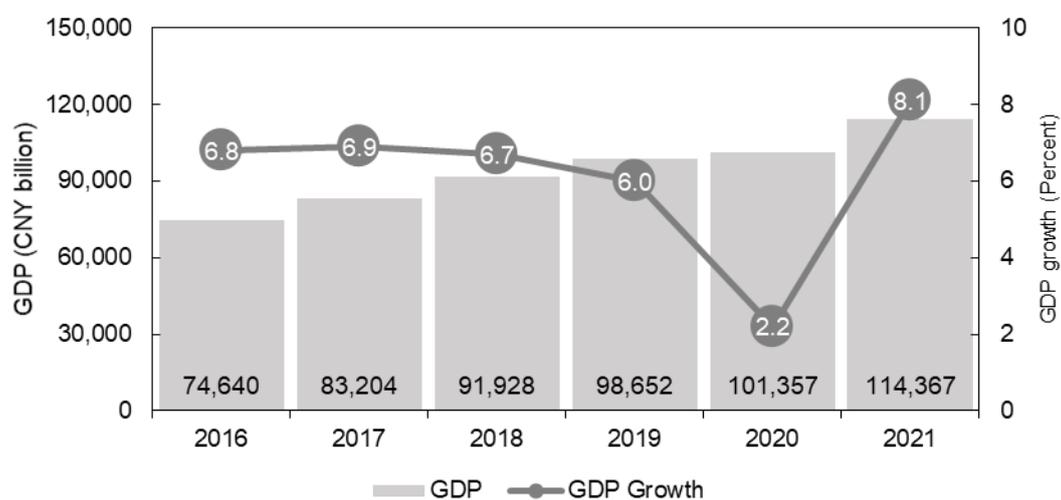
- DTAs with Kenya, Gabon, Congo Republic, Angola, and Argentina have not yet entered into force.
- For dividends, a lower rate applies where the beneficial owner of the dividend is a shareholder owning a stipulated percentage of the equity, generally 25%, of the distributing entity.
- For interest, 0% rate, if any, is applied on interest paid to government bodies of the other jurisdiction
- For royalties, a lower rate applies to payments for use of or right to use industrial, commercial, or scientific equipment.
- Please refer to the specific DTA for the correct interpretation of the provisions.

Appendix XII: Macro-economic indicators and tax revenue

Item	Unit	2016	2017	2018	2019	2020	2021
GDP	CNY bn	74,640	83,204	91,928	98,652	101,357	114,367
among which:							
Primary industry	CNY bn	6,014	6,210	6,475	7,047	7,803	8,309
Share total GDP	Percent	8.1	7.5	7.0	7.1	7.7	7.3
Secondary industry	CNY bn	29,543	33,158	36,484	38,067	38,356	45,090
Share total GDP	Percent	39.6	39.9	39.7	38.6	37.8	39.4
Tertiary industry	CNY bn	39,083	43,836	48,970	53,537	55,197	60,968
Share total GDP	Percent	52.4	52.7	53.3	54.3	54.5	53.3

Table 20 GDP and breakdown. Source: National Bureau of Statistics of China.

Item	Unit	2016	2017	2018	2019	2020	2021
GDP Growth	Percent	6.8	6.9	6.7	6.0	2.2	8.1
among which:							
Primary industry	Percent	3.3	4.0	3.5	3.1	3.1	7.1
Secondary industry	Percent	6.0	5.9	5.8	4.9	2.5	8.2
Tertiary industry	Percent	8.1	8.3	8.0	7.2	1.9	8.2

Table 21 GDP growth. Source: National Bureau of Statistics.**Fig. 1** China GDP and GDP growth, 2016 - 2021.

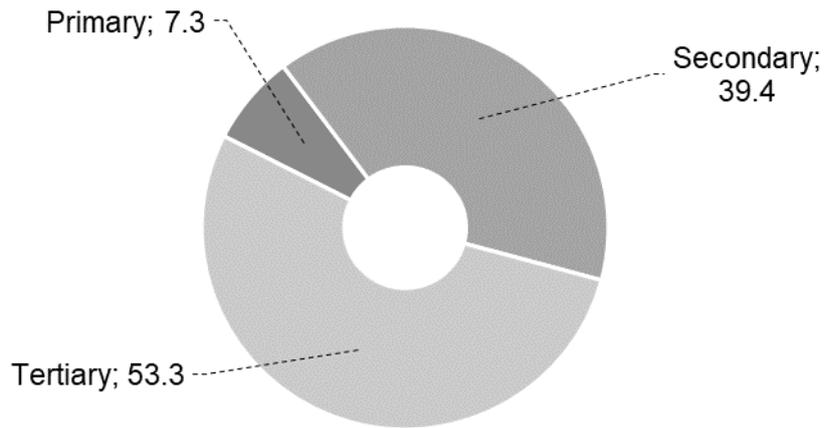


Fig. 2 China GDP 2021 by industry (percentage of total)

Item	Unit	2016	2017	2018	2019	2020	2021
GDP per capita	CNY	53,783	59,592	65,534	70,078	71,828	80,976
Growth	Percent	6.2	6.3	6.3	5.6	2.0	8.0

Table 22 GDP per capita and growth. Source: National Bureau of Statistics.

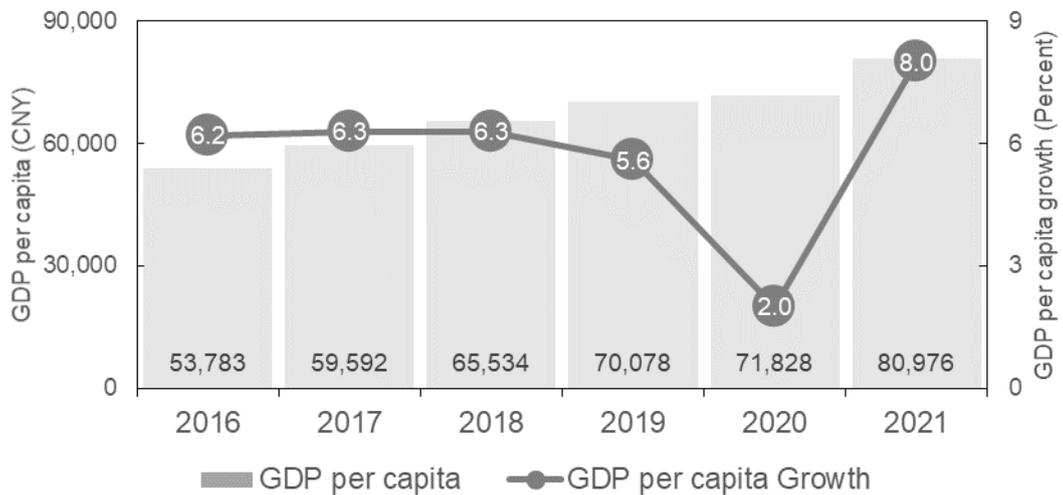


Fig. 3 China GDP per capita and annual growth, 2016 - 2021.

Item	Unit	2016	2017	2018	2019	2020	2021
Domestic VAT	CNY bn	4,071	5,638	6,153	6,235	5,679	6,352
Business tax	CNY bn	1,150	0	0	0	0	0
Consumption tax	CNY bn	1,022	1,023	1,063	1,256	1,203	1,388
Customs duties	CNY bn	260	300	285	289	256	281
Individual income tax	CNY bn	1,009	1,197	1,387	1,039	1,157	1,399
Company income tax	CNY bn	2,885	3,212	3,532	3,730	3,642	4,204
Other taxes	CNY bn	2,639	3,069	3,220	3,251	3,493	3,649
Total		13,036	14,437	15,640	15,800	15,431	17,273

Table 23 Breakdown of tax revenue. Source: National Bureau of Statistics of China.

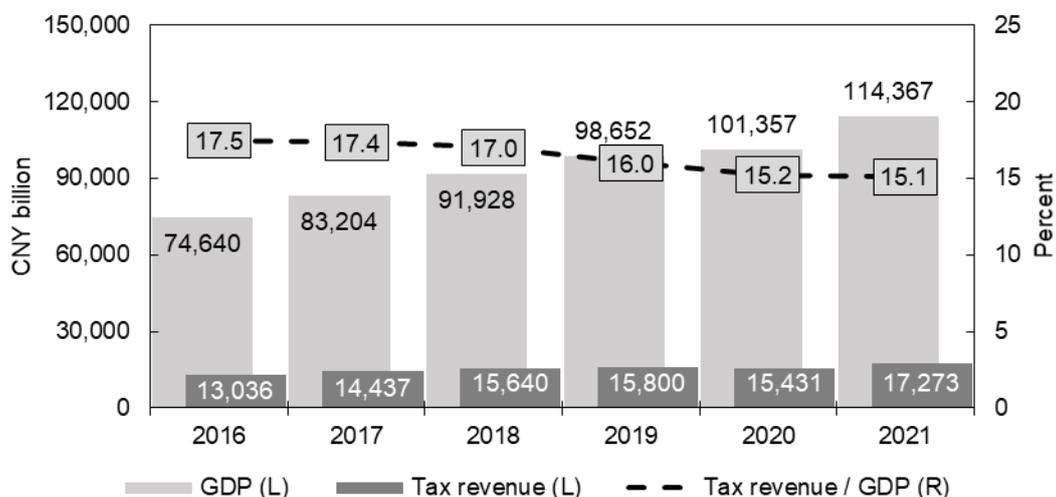


Fig. 4 Tax revenue share of GDP.

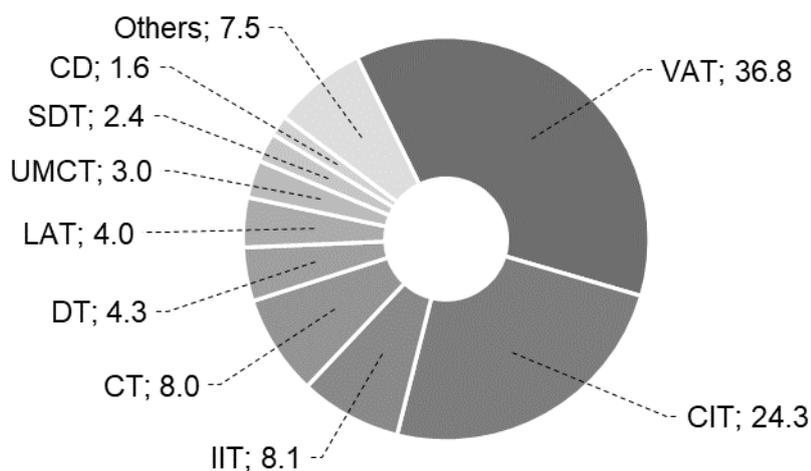


Fig. 5 Tax revenue 2021 by tax category (percentage of total)

Appendix XIII: Organizational Structure of State Administration of Taxation

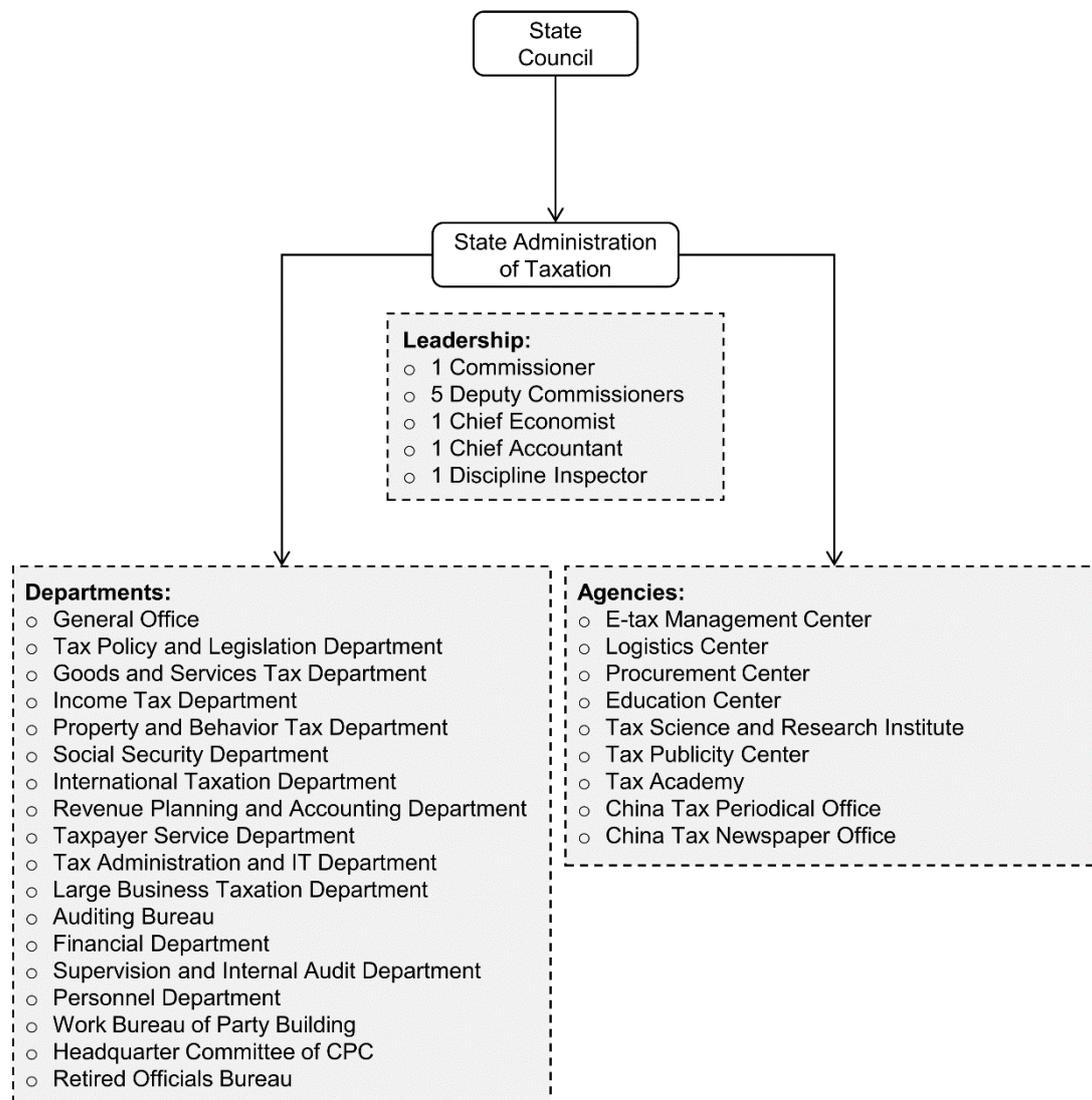


Fig. 6 Organizational structure of the SAT.

RsA asia_2022v3

RsA asia is a tax and corporate advisory firm assisting companies, multinational groups and institutions in Asian region and Far East.

With offices in Shanghai, Suzhou, Beijing, Hong Kong, Ho Chi Minh and a network of correspondents in Asia, the firm specialized in the emerging markets of the Far East region.

The firm combines a multidisciplinary vision and focus on different business sectors, providing tax and corporate finance consultancy in Asia.

Taxation

- VAT and indirect taxation
- Optimization of personal taxation
- M&A taxation
- Corporate tax assistance and consultancy
- Handling disputes with the tax authorities
- Fiscal due diligence
- Transfer-pricing
- Import and export custom duties

Corporate

- Financial consulting services
- Assistance with domestic and foreign investments
- Company evaluation
- Mergers and demergers of companies
- Spin-offs, transfers and restructuring
- Corporate Governance evaluation
- Disposal of entities or business units
- Market entry strategy
- Joint ventures and FDI assistance

Accounting and audit

- Bookkeeping and administrative assistance
- Financial Statements and reports
- Internal Audit and Accounting control
- Administrative, accounting and HR management
- Annual Statutory Audit
- Financial due diligence
- Interim CFO and management assistance